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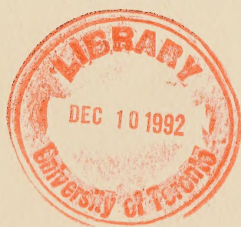
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# *1992 annual report*



Ontario

# Office of the Provincial Auditor









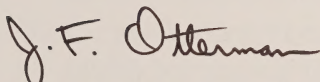


THE HONOURABLE  
DAVID WARNER, M.P.P.

Speaker of the Legislative Assembly of Ontario

Dear Mr. Warner:

In my capacity to act in the place of the Provincial Auditor, I am pleased to transmit my Annual Report for submission to the Assembly in accordance with the provisions of section 12(1) of the *Audit Act*.

A handwritten signature in cursive script that reads "J. F. Otterman".

Jim F. Otterman, F.C.A.,  
Assistant Provincial Auditor.

December, 1992.

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## CHAPTER ONE:

# Introduction

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Twenty-four provincial programs and activities were audited in the year ended August 31, 1992. This report to the Legislative Assembly contains the most significant extracts of 20 of those reports.

## THE AUDITING AND REPORTING PROCESS

Because of the size and complexity of the Province's operations and administration, it is impossible to audit each program every year. Instead, the Office conducts selected audits in a cycle, so that all major programs are considered for review every five years. The contents of this Annual Report were selected and reviewed by teams of Office staff consisting of auditors, audit Branch managers and directors, Communications staff, and senior management. The criteria for selecting findings for this report were financial impact, significance to the Legislature, public sensitivity or safety, and adherence to good management practices (economy, efficiency, and effectiveness measures).

Before beginning an audit, Office staff meet with representatives of the auditees to discuss the focus of the audit in general terms. During the audit, Office staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. After the audit staff conclude their on-site work, a draft report is prepared, reviewed internally, and discussed with the auditee. The final audit report, incorporating any necessary changes, is submitted to the auditee, and the most senior administrator is invited to respond in writing. Those re-

sponses are included in this *Annual Report*. As can be noted in the auditee's responses, action has already been taken on many of our findings. The Office is pleased to acknowledge the active co-operation of the staff of audited ministries and agencies throughout this year's process.

Under section 12 of the *Audit Act*, the Provincial Auditor is required to report through the Speaker to the Legislative Assembly on the results of examinations.

Prior to the tabling of the Report, separate and simultaneous lockups are arranged for members of the Assembly and their research staff; representatives of the media; and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor and senior audit management are available to answer the media's questions.

Each year, the Standing Committee on Public Accounts reviews the Provincial Auditor's Annual Report and calls upon representatives of the audited ministries or agencies to discuss selected sections. These meetings are normally open to the public.

## SUMMARY OF AUDIT CONCLUSIONS

The following list summarizes the overall conclusions for the 20 audit reports in this publication. A more complete sense of the circumstances of each audit—and the auditee's follow up—can be obtained by reading the relevant sections in Chapters Two and Three.



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## **Cross-Ministry Audit of Purchasing**

Policies and procedures for purchasing supplies and equipment were generally followed (Section 2.01).

## **Government-wide Audit of Information Technology Security**

Compliance with a Management Board directive on the security of confidential computerized information was less than satisfactory (Section 2.02).

## **Market Revenue Program (Agriculture and Food)**

The verification procedures of a program to protect farmers from low market prices were satisfactory (Section 3.01).

## **Citizenship Support Program (Citizenship)**

Controls over the processing and payment of Citizenship grants were less than satisfactory (Section 3.02).

## **Family Benefits Assistance (Community and Social Services)**

Administration of a program providing long-term financial assistance to an escalating caseload of sole support parents, and disabled and unemployed people, was less than satisfactory (Section 3.03).

## **Elevating Devices (Consumer and Commercial Relations)**

Inspection of elevating devices was inadequate to ensure compliance with safety standards (Section 3.04).

## **Real Property Registration (Consumer and Commercial Relations)**

The process for registering real property ownership was satisfactory (Section 3.05).

## **Surface Water Quality (Environment)**

Progress has been slow on initiatives to reduce toxic discharges into sewers and waterways, to control urban and agricultural run-off, and to clean up certain polluted areas of the Great Lakes (Section 3.06).

## **Corporate Payroll System (Government Services)**

The business case did not sufficiently demonstrate that the planned payroll system would be the most workable and cost-effective choice from among existing and alternative solutions. Data and software were not adequately secured from unauthorized access (Section 3.07).

## **Queen Street Mental Health Centre (Health)**

Policies and procedures for in-patient care were generally being followed, although we were unable to conclude whether the Centre complied with the *Mental Health Act* regarding the rights of patients to be fully informed about their treatment (Section 3.08).

## **Community Mental Health (Health)**

Controls over funding to community mental health programs were less than satisfactory, and the monitoring of the care and services provided by those programs was also less than satisfactory (Section 3.09).

## **Health Registration System (Health)**

To ensure a speedy registration process, health card eligibility verification procedures were deliberately limited. Additionally, controls were inadequate to ensure that registration information was accurate, complete and secure (Section 3.10).

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### **Microcomputer Network (Housing)**

There was a lack of appropriate analysis for development of a Ministry microcomputer network (Section 3.11).

### **Non-Profit Housing (Housing)**

Controls to ensure that non-profit housing was built where it was needed, and at a competitive cost, were less than satisfactory. Controls to ensure cost-effective management of completed projects were also less than satisfactory (Section 3.12).

### **Selling Prices, Transportation of Liquor, and Treasury Operations (Liquor Control Board of Ontario)**

The procedures used to calculate the selling prices of liquor products were satisfactory, and the controls over the acquisition of freight services were more than satisfactory. Controls over revenues and investments were satisfactory, although we had concerns about foreign currency transactions (Section 3.13).

### **Timber Stumpage, Hunting and Fishing Licences, and Provincial Park Fees (Natural Resources)**

The controls over the collection of timber stumpage charges and provincial park fees were satisfactory. The controls over the collection of revenue from hunting and fishing licences were less than satisfactory (Section 3.14).

### **Administration of Trusts and Estates (Public Trustee of Ontario)**

The Public Trustee's procedures for administering trusts and estates were unsatisfactory (Section 3.15).

### **Employer Health Tax (Revenue)**

While the new Employer Health Tax system was implemented on time and within budget, controls to ensure that the Province was collecting all the tax to which it was entitled were less than satisfactory (Section 3.16).

### **Property Assessment Operations (Revenue)**

Procedures to ensure the completeness and timely delivery of property assessment rolls to municipalities were generally satisfactory. However, the cost effectiveness of the reinspection function was less than satisfactory (Section 3.17).

### **Highway Maintenance Activities (Transportation)**

The level of maintenance to prevent the deterioration of highways and bridges was less than satisfactory. The acquisition and utilization of maintenance equipment and staff were less than satisfactory (Section 3.18).

## **OTHER INFORMATION IN THIS REPORT**

Chapter Four deals with the Public Accounts of the Province, the 1992 deficit, the effect on the deficit of advance payment of expenditures, and the Consolidated Revenue Fund.

Chapter Five provides background information on the Office of the Provincial Auditor, and Chapter Six discusses the Legislature's Standing Committee on Public Accounts.

Supplementary information is provided in six exhibits at the end of this *Annual Report*.

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## TO CONTACT THE OFFICE OF THE PROVINCIAL AUDITOR

Anyone with concerns about use of resources in the administration and operation of Provincial programs may contact the Office. Information will be treated with confidence, and will be considered for appropriate follow-up action or investigation. Significant findings resulting from such information will be included in subsequent Annual Reports to the Legislature.

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Toronto, Ontario  
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Phone (416) 974-9866  
or (800) 668-8516

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## CHAPTER TWO:



# Cross-Ministry and Special Audits

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# Government Purchasing

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2.01

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For the 1991/92 fiscal year, the Province's expenditures for supplies and equipment totalled approximately \$704 million.

Our objective was to assess on a cross-ministry basis whether supplies and equipment (including furniture and automobiles) were purchased in accordance with central agency and ministry policies and procedures.

To achieve our objective, we audited a representative sample of purchases at seven ministries—Attorney General, Government Services, Health, Natural Resources, Solicitor General, Tourism and Recreation, and Transportation. These ministries accounted for approximately 65 per cent of the \$704 million in purchases of supplies and equipment.

We also audited the central purchasing activity at the Ministry of Government Services.

## CONCLUSION

Policies and procedures for the purchase of supplies and equipment were, in all significant respects, followed.

## BACKGROUND

The purchase of supplies and equipment within each ministry is governed by its policies and procedures manual. However, the minimal principles and requirements applicable to all ministries are outlined in Management Board of Cabinet Directives.

Each ministry is responsible for ensuring that its supplies and equipment are acquired competitively from qualified suppliers. Certain purchases must be made only from one of the approved mandatory central common services (i.e., designated ministries which have negotiated standing agreements for specific items with suppliers). Also, ministries must determine the cost-effectiveness of providing internally over purchasing from outside suppliers any goods or services available from approved optional central common services.

## COMMENTARY

### COMPETITIVE PURCHASING PROCESS

Management Board of Cabinet Directives state that supplies and equipment "must be acquired through a competitive process that ensures the best value for the funds expended to meet specific needs, and promotes fair dealings and equitable relationships with the private sector".

We found that this requirement was generally followed. However, there were some exceptions. For example:

- A Ministry purchased material for two temporary bridges for \$2.5 million. We were advised that competitive bids were not obtained because the Ministry felt that only one company could supply the material based on the structural specifications.

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Subsequent to the award, another company contacted the Ministry to inquire why they were not requested to bid. Apparently its material met the specifications. We were advised by management that the second company would be considered in any future tendering.

On purchases of this magnitude, the Ministry should thoroughly search all potential suppliers before deciding to proceed without getting competitive bids.

- A Ministry entered into a contract in December 1989 for the purchase of computers during 1990. The contract was extended three times, and was still in force at the time of our audit in May 1992. No attempt was made to obtain periodic competitive bids to determine if the prices were still reasonable.

The benefit of periodically obtaining competitive bids was demonstrated when a Ministry employee disregarded the contract and independently negotiated a purchase of computer equipment directly from the same company. The price paid was \$133,000, which was \$52,000 less than if the equipment had been purchased under the contract.

## CENTRAL COMMON SERVICES

Management Board of Cabinet Directives require that certain supplies and equipment "must be acquired only from one of the approved mandatory central common services." Also, before going to the private sector, ministries must determine the "cost-effectiveness of acquiring certain supplies and equipment...from the approved optional central common services."

Both the mandatory and optional central services are provided by specific ministries which are assigned these responsibilities. The Ministry designated as the central common service arranges standing agree-

ments with suppliers of the items to be covered by the central common service. During our audit, we reviewed the competitive process followed by the Ministries of Government Services, Health, and Transportation in establishing both the mandatory and optional central common services. We also reviewed whether ministries were using these services.

In general, approved suppliers of central common services were selected using a competitive process. We also noted that purchases by ministries were made from the approved common services where appropriate. However, there were some exceptions. For example:

- The Ministry of Health is the approved mandatory central common service for the provision of drugs and related medical supplies. We noted that some psychiatric hospitals were not complying with the requirement to purchase drugs through the Ministry, and were purchasing drugs and medical supplies directly from drug companies. We were able to identify \$1.6 million of these purchases for the 1992 fiscal year. Some of these purchases may have been justifiable in emergency situations, but generally drug purchases should be made from the government pharmacy.

## DEFINING PRODUCT REQUIREMENTS


Management Board of Cabinet Directives state that requirements "be defined properly so that potential suppliers will be able to submit valid bids" and that "generic and/or functional terms must be the preferred method used to describe requirements." While ministries generally followed this policy, there were some exceptions:

- For two purchases totalling \$187,000 at a Ministry, specific brand names were used in the tender specifications. In both cases, the company whose brand



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name was stated won the bid. One was for the purchase of window shades while the other was for the purchase of a motorized lift costing \$140,000. For the latter purchase the tender specifications were sent to four companies. Included with the package was the brochure for the product ultimately purchased.

Of the four companies requested to tender, only one submitted a bid. This company was the only Ontario distributor of the brand specified. Two bidders indicated that "agreements with distributor/dealers do not permit us to sell directly." The fourth company did not submit a bid. No bids were invited from other equivalent equipment distributors. We noted that there are other distributors of similar equipment. 

# 2.01

## RESPONSE

The Secretary of Management Board of Cabinet responded to our report on September 11, and attached the comments of the five audited ministries from which a response was appropriate—Attorney General, Government Services, Health, Natural Resources and Transportation. The ministry responses indicated the corrective action being taken. The Secretary made the following general comments:

*I am pleased to note that policies and procedures for the purchase of supplies and equipment were, in all significant respects, followed. In those instances where improvements were called for, ministries have taken appropriate action.*

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## GOVERNMENT-WIDE AUDIT:

# Information Technology Security

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In February 1990, Management Board of Cabinet issued Directive 7-3 on Information Technology Security, which applies to all ministries and Schedule I agencies. This Directive outlines mandatory requirements for safeguarding confidential computer information.

Information technology spending by government ministries accounts for almost \$500 million annually, or about 6 per cent of total operating costs.

The objective of our audit was to assess whether ministries and Schedule I agencies had effectively complied with Directive 7-3 on *Information Technology Security*.

We worked with ministries and agencies to develop a comprehensive self-assessment questionnaire to assess their compliance with the Directive as at January 1, 1992.

While this audit was essentially a self-assessment, we sampled ministries and agencies randomly to corroborate their representations. Because of this work and our previous audits, we believe the following summary of their representations to be substantially correct.

## CONCLUSION AND FINDINGS

Despite some progress on meeting the Directive's requirements, we concluded, on the whole, that compliance with the *Information Technology Security* Directive was less than satisfactory. Full compliance with this Directive is still several years away.

The average ranking by ministries and agencies of their progress in compliance with the Directive on a scale of one to ten (with ten the highest) was less than five. Most ministries estimated the time to fully implement the Directive at nearly 24 months.

From detailed information provided by ministries, we noted that:

- only 11 ministries had an approved Information Technology Strategic Plan as required;
- nearly 50 per cent of ministries reported a lack of skilled staff as the most common reason for poor progress;
- ministries had over 600 computerized applications containing confidential information—the *Freedom of Information and Protection of Privacy Act* applied to 88 per cent of these applications; and
- there was compliance with the Directive on only a third of the most important computerized systems containing confidential information.

## BACKGROUND

Under Directive 7-3, ministries and agencies must have the proper controls in place to ensure the confidentiality, integrity and availability of data "created, entered, processed, communicated, transported, disseminated, stored or disposed of through information technology". They also are responsible for promoting and

sustaining an awareness of information technology security requirements.

Management Board called for all ministries and agencies to submit plans for carrying out the Directive. These plans were to be included in all Information Technology Strategic Plans submitted to Management Board after April 1990.

To help ministries and agencies meet the Directive, Management Board Secretariat issued a Guideline in May 1991. As well, they developed a two-day training program and issued a memorandum to all deputy ministers stressing the importance of proper information technology security practices.

In our 1991 *Annual Report*, we expressed concern about computer security in our reports on government-wide audits of microcomputers, minicomputers, and

mainframes. These audits prompted this survey and provided assistance in evaluating responses to our survey.

## COMMENTARY

### RESPONSE RATE

All ministries responded to our survey. Of the 169 Schedule I agencies, only 48 agencies completed the assessment, 49 agencies responded that the Directive was not applicable, and 63 did not respond at all. Based on calls to our Office and our follow-up audit work, we attribute the low response rate of agencies to their lack of knowledge of the Directive. We concluded that the Directive had not been effectively communicated to all Schedule I agencies.





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## RATING PROGRESS

Ministries and agencies rated the degree to which they met the Directive on a scale of one to ten, with ten being full compliance. The average rating for ministries was 4.9, and for agencies 4.6, as shown below:

We concluded that this was a less than satisfactory rating for carrying out the Directive. The Directive outlined generally accepted security requirements, and made them mandatory. It did not represent a substantial departure from good business practice—or what already should have been in place. Thus, this low self-assessment rating raises serious concerns about the proper protection of information technology and the many government programs it supports.

While ministries and agencies generally did not give themselves a passing grade regarding computer security, the findings of a recent government survey of 10,000 Ontarians indicated that most respondents felt that the government was doing a good job of protecting their confidential information.

## TIME REQUIRED FOR IMPLEMENTATION

The Directive came into effect gradually, with each ministry submitting to Management Board a plan for compliance. The plan was to have been part of every ministry's Information Technology Strategic Plan filed after April 1, 1990.

Only 11 ministries had such an approved strategic plan. Several noted that their plans were under development or review. Only 10 of the 48 responding agencies had an approved plan.

There was a strong correlation between the ministries' self-assessment ranking of progress and their estimates of the amount of time required to fully meet the Directive. Most ministries estimated that it would

take almost two years to comply. This would mean that full compliance by all ministries would take nearly four years from approval of the Directive. While we acknowledge significant improvement by some Ministries, we believe that this overall pace of progress is less than satisfactory.

As for the responding 48 agencies, there was greater variability between their self-assessment ranking of progress and their estimates of the amount of time required to fully implement the Directive. Several agencies estimated it would take more than three years to complete. Others were more optimistic, both in their rating of progress and in the time required for full compliance. Generally, this may be a function of the much smaller size of the typical agency as opposed to that of the typical ministry.

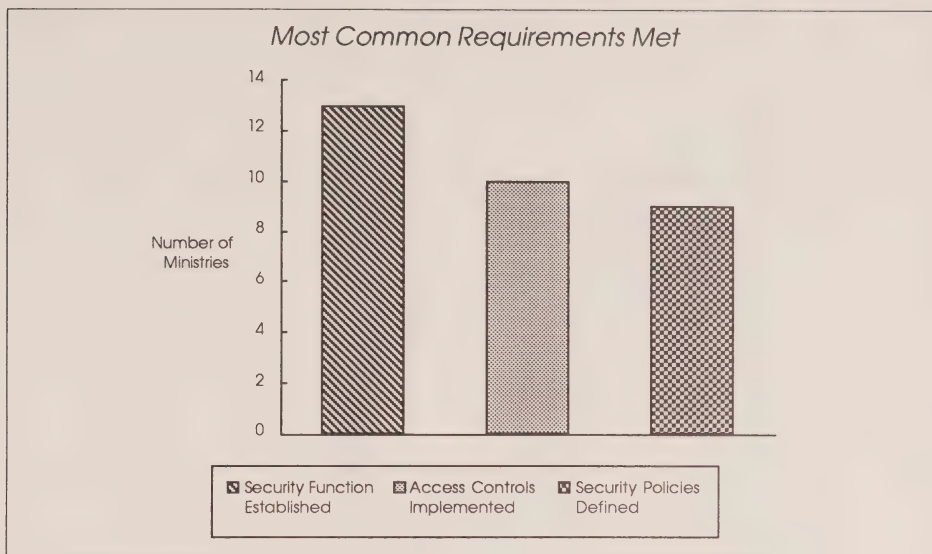
## REASONS FOR NON-IMPLEMENTATION

Ministries provided up to three reasons why they had not carried out the Directive. Nearly 50 per cent of the ministries reported the lack of skilled staff as the most common reason, closely followed by other priorities at 45 per cent.

With current budgetary restraints and their effect on hiring and training, the staffing issue may be difficult to resolve in the short term. However, the high response rate for other priorities implies that security as a management issue is not receiving sufficient attention. Resources will only be assigned or reallocated when security becomes a priority for senior management.

## REQUIREMENTS MET

Ministries suggested up to three Directive requirements that they had met. Nearly 50 per cent of the ministries reported the creation of the security function as the most common step. The implementation of access controls and the definition of security policies were the next most common requirements met.



We noted that ministries initially tended to respond to the Directive with organizational changes. This would be consistent with the *Information Technology Security Guideline*. Few ministries noted progress in promoting an awareness among staff of the security requirements of information technology, and 8 of 27 ministries had not made the Directive known throughout their ministries. We believe that effective security starts with people; without people having a sufficient understanding of their responsibilities, no security program can work. The culture of the organization needs to include an appreciation of security requirements. This can only be done by increased training and awareness.

## CONFIDENTIAL INFORMATION

Ministries estimated that they had over 600 computerized applications containing confidential information, of which 88 per cent are covered by the *Freedom of Information and Protection of Privacy Act*. The Act establishes the standards of privacy protection required by law for provincial ministries, agencies and other government bodies. Only a third of the ministries

reported, however, that they had inventoried all confidential information in their Ministry.

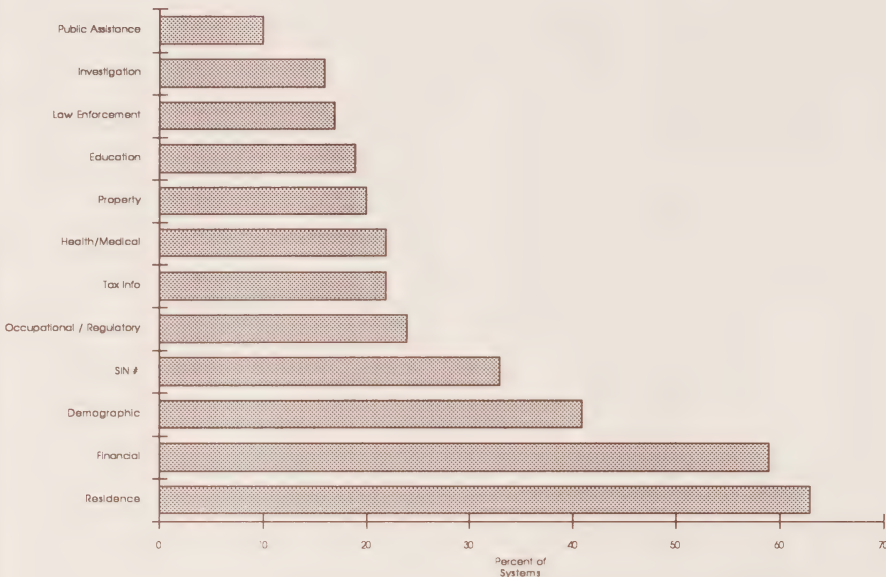
The 48 responding agencies reported over 450 computerized applications containing confidential information, with over 60 per cent covered by the Act. Only 14 of 48 responding agencies had inventoried all confidential information.

## MOST IMPORTANT SYSTEMS

Ministries provided detailed information on their five most important computerized applications containing confidential information. These applications are critical to the mission of the ministry or important in program delivery. They identified some 116 such systems. The chart on the following page shows that these systems contain extensive personal data, ranging from names and social insurance numbers to financial and health information.

Ministries reported that they were in compliance with the Directive on fewer than one third of these systems. The Directive

### Most Significant Information Collected



states: "The extent and cost of security measures are to be commensurate with the likelihood and/or potential impact of a breakdown in information technology security."

Given the importance of these systems, we concluded that ministries gave insufficient priority to protecting these critical systems.

For these important systems, ministries identified budget constraints as the most common reason that security controls were not in place.

### CONFIDENTIALITY, INTEGRITY AND AVAILABILITY OF THE MOST IMPORTANT SYSTEMS

The Directive states: "Information technology security is achieved when the following three conditions are met:

- *confidentiality*—controlled access to information as required by legislation;
- *integrity*—accurate, complete, authentic and timely data and data processes;
- *availability*—continuous operation of information systems that enable or support the delivery of services."

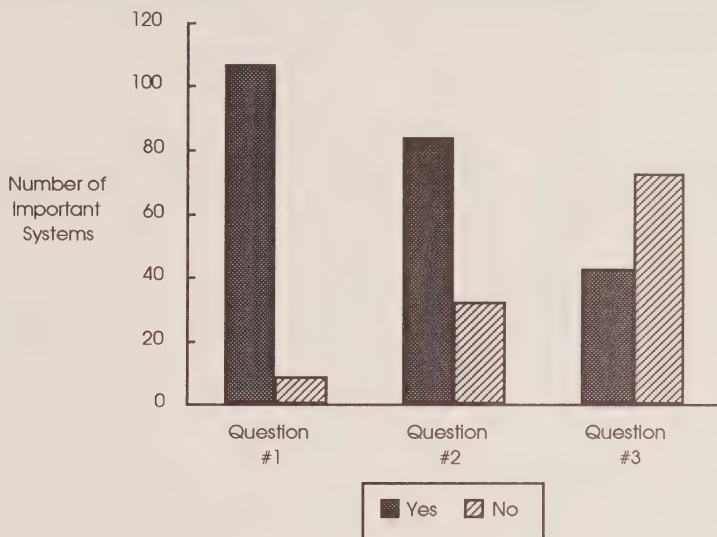
Ministries answered questions concerning the confidentiality, integrity and availability for their most important computerized applications containing confidential information, as shown above.

The responses to question #1 suggest that ministries believed that they have adequately protected confidential information in over 90 per cent of their most important systems. We had a far less optimistic opinion, based upon previous audit work.



## Confidentiality, Integrity, Availability

- #1 "Is access to personal or otherwise confidential information restricted to those who require it to perform their duties?"
- #2 "Does only the program manager keep a record of the type of data access each employee and/or position is allowed?"
- #3 "Is there a contingency plan in place ready to be implemented in the event of a disaster?"



In several recent audits, we reported significant weaknesses in the protection of confidential information on important systems. The ministries' responses also tended to contradict their responses concerning the identification of confidential information, the frequency of security reviews, and the sharing of data between ministries.

Ministries reported they met information integrity requirements in over 70 per cent

of systems, yet they felt that only a little more than one-third of the information systems supporting service delivery met continuous operation requirements.

Given the three conditions for secure information technology, we concluded that there is significant room for improvement in the security of the Ministries' most important systems. Program delivery to the public could be at risk without such improvements.



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## RESPONSE

The Secretary of Management Board of Cabinet responded to our report on August 24:

*We feel that the self-assessment approach you have taken, and your interpretation of the results, are very helpful in assessing the government's progress in this critical area.*

*We are not surprised, based on our original forecast and given the current constraints faced by the ministries, that some will require more time to fully implement the Directive. We will continue to help ministries fulfil their responsibility for implementing information technology security.*

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## **CHAPTER THREE:**



# **Ministry and Crown Agency Audits**

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# Market Revenue Program

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3.01

The Market Revenue Program protects farmers against reduced income due to low market prices. For the 1991 crop year, payments totalled about \$140 million as of March 31, 1992 which represents about 60 per cent of the expected payout for that crop year.

One of our audit objectives was to assess whether the Market Revenue Program had satisfactory controls to verify the accuracy of information provided by farmers on crop acreage and yields.

Our audit was conducted both at the Ministry of Agriculture and Food's head office and three of the seven area offices. We obtained information from other area offices by means of a questionnaire. We also interviewed officials with the federal government and accompanied Ministry personnel on inspection visits to farmers.

## CONCLUSIONS AND FINDINGS

### VERIFICATION PROCEDURES

Procedures to audit the accuracy of information reported by farmers on crop acreage were generally satisfactory. However, strengthening the documentation of procedures used to substantiate farmers' yields would have improved the overall process.

- High risk audits of producers were proving to be more cost-effective than the random audits currently being done. For instance, high risk audits detected a number of instances of farmers claiming more acres than were actually planted.

- Procedures used by the Ministry to substantiate farmers' crop yields were not well documented.

### OTHER MATTER

- Early indications suggested that the program may be encouraging farmers to produce crops which have a high support price rather than those crops with a relatively high market price.

## BACKGROUND

In 1991 the federal government established a national tripartite Gross Revenue Insurance Plan (GRIP) with the provinces for certain crops. GRIP includes components for both yield and price insurance. The provinces have the option of providing these two types of insurance as a single, integrated program or as two separate programs. Ontario has opted for two separate programs, the Crop Insurance Program which provides a yield insurance and the Market Revenue Program (MRP) which provides price insurance. Prior to the establishment of the MRP, price support to farmers for grain crops was provided by the Farm Income Stabilization Program.

Insurance premiums for MRP are shared between the federal government, the Province, and the farmers. For the 1991 crop year, premiums totalled about \$156.7 million, of which the federal government paid 52 per cent, the farmers paid 25 per cent, and the Province paid 23 per cent.

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The MRP covers 80 per cent of a farmer's average farm yield. The MRP support price, determined on a per crop basis, is 80 per cent of the 15-year average Ontario price for that crop. A claim payment will be made to the farmer if the current Ontario market price for the crop is less than the support price.

Approximately 27,000 farmers were enrolled in MRP in 1991. Not all crops are eligible for coverage under MRP. However, farmers who do enrol in the program must enrol all crops that are eligible for coverage.

## COMMENTARY

### VERIFICATION PROCEDURES

#### AUDITS OF FARMERS

We reviewed the system used by the Ministry to verify the acreage information provided by farmers. The Ministry system included the conduct of both random and high risk audits. In 1991 random audits were selected by head office and conducted by field staff. High risk audits were selected by the area managers and usually carried out by field staff. In selecting farmers for high risk audits, area managers took into consideration factors such as field staff input, past experience with the particular farmer and whether the farmer was a new client.

For the 1991 crop year, about 560 random audits were conducted, primarily to determine whether the actual acreage planted for that crop agreed with that reported by the farmer. In total, about 260 acres were detected where the actual acreage was less than that indicated by the farmer in the final acreage report. These results pro-

vided a high of level of assurance that the acreages reported by the farmers were actually planted.

For the 1991 crop year, approximately 375 high risk audits were carried out by six of the seven area offices. We selected and reviewed about 90 completed high risk audits. Our review found 16 instances where the acres reported in the farmer's final acreage report exceeded the actual acres planted. Based on the acreage tested, approximately 20 per cent of the acres reported in the farmer's final acreage report in these 16 instances exceeded the actual acres planted.

For instance:

- one audited farmer had overstated by 77 acres the acreage planted by including a neighbouring farm as part of the final acreage report. The farmer's enrolment in the program was subsequently cancelled; and
- another case involved two family members who each submitted a farm acreage report for 70 acres on the same farm property. This was detected during a high risk audit. Subsequently, the farmers' enrolment in the program was cancelled.

High risk audits were more effective in uncovering problems than random audits. This was supported by interviews with Ministry personnel and questionnaire results from area managers who generally felt that random audits were not as effective as high risk audits. In addition, based on 1991 audits, cost savings could have been realized by increasing the proportion of high risk audits to random audits.

We acknowledged that random audits act as a deterrent for farmers who overstate their acreage. However, we fully supported the Ministry in its efforts to carry out a greater proportion of high risk audits.



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## YIELD REPORTS

Under the MRP, higher crop yields result in larger payouts to farmers. Accordingly, we reviewed the process used by Ministry personnel to substantiate farmers' yields when preparing the yield reports.

Typically, after the crops were harvested, a Ministry representative visited the farmer and together they prepared the yield report. In most instances, some or most of the harvest would have been disposed of through sales or consumption; therefore, Ministry personnel should have relied on other supporting evidence to substantiate yields claimed by the farmer.

Our review indicated that although farmers' crop yields were signed off by Ministry personnel as having been verified, there was no documented evidence accompanying the yield report indicating what steps were carried out to calculate or substantiate the reported yield.

In our discussions with Ministry officials, we were informed that although no documents or evidence were attached, staff generally examined documents such as sales receipts and weight tickets, and measured any stored or carry over crops from prior years. This practice was confirmed by questionnaire results from area managers. We also understood that if the Ministry found that the farmer's yield was not comparable with the county average for that crop, then a more thorough review would have been done.

Substantiating yields is important in ensuring that farmers are not inflating their production or crop yields so as to receive larger payments. During the 1991 crop year, the Ministry noted instances where farmers had inflated their crop yields. For example, in checking a farmer's 1991 crop yield, Ministry staff discovered that the farmer had included a sales invoice from the previous year's crop to inflate the current year's yield.

We suggested that the Ministry assess the practicality of recording the procedures carried out when substantiating farmers' yields, and where applicable, note records of sales and weight ticket numbers. Such evidence would have provided a trail or record of the work done and help the Ministry in carrying out any further testing of farmers' yields.

## OTHER MATTER PRODUCTION LEVELS

Under the MRP, payments are made to farmers when the annual market price of an eligible crop falls below the insured support price. The Ministry has stated that the program was not designed to provide direct incentives for farmers to either increase or decrease the acreage planted of the various eligible crops.

In essence, the Ministry does not want to encourage farmers to determine which crops to plant based on which crops offer the largest spread between the support price and the cost of production. Recognizing that the MRP is in its early stages, we nevertheless assessed whether there was any evidence that farmers were growing crops based primarily on this as opposed to growing crops with relatively high market prices.

We analyzed the change in average acreage planted from 1988 to 1990 to the actual acreage planted in 1991 for corn and soybeans, as together these two crops account for 75 per cent of the total acreage insured by the MRP. Our analysis indicated that even though the market prices for corn and soybeans both decreased by about 12 per cent in that period, the acreage planted for both crops in 1991 increased by 5 and 12 per cent respectively.

With respect to soybeans, we noted that the direct cost of growing soybeans is \$100 per tonne as compared to the support price of \$310 per tonne. We also noted that acres rented for growing soybeans increased substantially from 4,100 acres in 1988 to over 35,700 in 1991 (1989 and 1990 figures not available). According to a Ministry publication, some switching of crops from vegetables in 1990 to soybeans in 1991 also took place.

In their responses to our questionnaire, both head office personnel and area managers acknowledged that relatively high support prices for certain crops could motivate farmers to increase production of those crops.

We recognized that other factors such as crop rotation, market demand and weather conditions could also affect farmers' decisions to shift production from one crop to another. However, our analysis, while not conclusive, suggested that the program might have been encouraging farmers to make planting decisions based at least partly on expected subsidies.

Although the MRP is in its early stages, we recommended that the Ministry monitor the possible effects of this program on farmers' planting decisions and communicate any concerns to the federal government.



## RESPONSE

The Deputy Minister of Agriculture and Food responded to our report on September 14:

## OTHER MATTER PRODUCTION LEVELS

*Ontario's Market Revenue Program is known as the national GRIP Program. As such, a national committee with representatives from each province and the federal government establishes rules for the administration of the program.*

*This committee has, as one of its mandates, a responsibility to ensure production neutrality between crops. One option the committee is currently considering is the "basket" approach to supporting prices. This method would overcome any tendency for farmers to favour one crop over another. In addition, the federal government is monitoring the possibility of any shift from hay and pasture crops to grain crops.*

*The shift of corn and soybean crops noted in the report in the first year was not due to the program itself. The 1990 fall seeded crop of winter wheat suffered badly from winter kill. As a result, most of the worked up acreage was seeded to soybeans and corn. The winter wheat acreage has increased for the 1991/92 crop year.*

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## MINISTRY OF CITIZENSHIP:

# Citizenship Support Program

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# 3.02

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The Citizenship Support Program of the Ministry of Citizenship is responsible for providing capital, project and operational funding for local initiatives to promote full, equal and responsible citizenship by all residents of Ontario. Most of the initiatives funded are designed to assist immigrants, ethnocultural minorities and aboriginal peoples.

For the 1991/92 fiscal year, program expenditures totalled approximately \$41 million, \$28.3 million of which consisted of transfer payments.

One of our audit objectives was to assess whether grants were adequately controlled.

Our audit focused on administrative procedures and a sample of grant files from five different grant programs which together accounted for approximately 90 per cent of all grants provided. We also interviewed key personnel at both field and head office locations. The audit covered primarily fiscal years 1989/90, 1990/91 and 1991/92 where appropriate.

## CONCLUSION AND FINDINGS

### CONTROLS OVER GRANTS

Controls over the processing of grants and payments to recipients were less than satisfactory.

- There was no attempt to rank applications for project or capital grants to ensure that only the most promising

projects are funded over the course of the year.

- The Ministry often prepaid native grants in excess of the amounts required by the guidelines, usually late in the fiscal year. For example, in the 1989/90 and 1990/91 fiscal years, the Ministry prepaid \$1.5 million in excess of the amounts required out of a sample of grants totalling \$8.4 million.
- We were generally unable to determine whether grant recipients acquired goods and services competitively.
- There was virtually no reporting or monitoring of compliance with capital grant terms and conditions or of the benefits received.

### Multiculturalism and Race Relations Fund

- Responsibility for projects between the Ministry of Citizenship as funder and the delivery Ministries was not clearly defined. As a result, implementation of individual projects, including the results achieved, was not monitored by the Ministry and there was no annual monitoring or reporting on the overall effectiveness of the fund.
- The project selection committee did not maintain documentation supporting the ranking or approval of projects.
- Payments were often made based on insufficient information. In addition, required mid-year and year-end financial reports were not received from the delivery ministries, hindering the administration of the fund.

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## OTHER MATTER

- In our view, \$129,000 was spent for a purpose other than that for which it was appropriated.

## BACKGROUND

For 1991/92, the Ministry made transfer payments under nine distinct programs. The following is a description of the five main programs which were the focus of our audit.

The **Community Facilities Improvement Program** provides funding for the planning, purchase, renovation, adaptation or improvement of existing facilities, or the development and construction of new facilities that are used by organizations that further the Ministry's objectives. During 1991/92, there were 82 such grants totalling \$9.2 million.

The Ministry issued 141 **Community Project Grants** totalling \$2.6 million in 1991/92. These grants help community-based, non-profit organizations promote citizenship by providing funding for short-term, one-time and non-capital projects.

Projects eligible for funding in the **Grants for Special Projects - Native Peoples** are designed to encourage native self-reliance and community participation through preservation of native heritage, promotion of leadership skills, and facilitation of socioeconomic development and access to government services. In addition, under the government's anti-recession program, one-time grants were provided for on-the-job management and training projects. During 1991/92, the Ministry issued 258 grants under this program totalling \$4.1 million.

The **Ontario Settlement and Integration Program** provides annual operational funding to non-profit community-based organizations that provide settlement and

integration services primarily for immigrants and refugees. The Ministry issued 126 OSIP grants totalling \$5.5 million during 1991/92.

The **Multicultural and Race Relations Fund** provides financial assistance to other ministries for projects that support the government's multiculturalism and race relations strategy. During 1991/92, the Ministry funded 78 grants totalling \$4.1 million.

## COMMENTARY

### CONTROLS OVER GRANTS

#### PROJECT PRIORITIES

In 1991/92 and prior years, applications for project and capital grants were received throughout the year. As a result, applications were considered on a "first come, first served" basis, and there was no attempt to rank them to ensure that only the most promising projects were funded over the course of the year. As a result, projects of less significance could have been funded earlier in the year when only a few applications had been received, while applications for better projects later could be rejected or delayed due to insufficient funds.

We were informed that for 1992/93, applications for project and capital grants will be batched quarterly and ranked by the regional consultants. This will help to ensure that projects are funded based on assessed priorities.

#### PREPAYMENT OF GRANTS

The grant guidelines for native capital projects usually provide for the recipient to receive 35 per cent of the grant amount on signing the agreement. Payment may be increased to 90 per cent of the grant on



completion of 30 per cent of the work. The final 10 per cent is to be paid on completion of the project.

We found that the Ministry often prepaid grants in excess of these amounts, usually late in the fiscal year. For example, our review of native capital grants totalling \$8.4 million in 1989/90 and 1990/91 found that 12 of them totalling \$2.8 million were prefunded at the 90 per cent rate rather than the normal 35 per cent. This resulted in the Ministry prepaying \$1.5 million in excess of the normal amounts due. We also noted that 11 of the 12 prepayments were approved and paid in the last month of the fiscal year.

When projects are prefunded at the 90 per cent rate, there is little incentive for the recipients to keep the Ministry informed of the current status of the project. Of the 12 projects prefunded, three were completed in over 27 months. This violated the Ministry's requirement that projects be completed within 18 months of signing the agreement.

Prepaying grants in excess of the amounts required by the guidelines reduces the Ministry's ability to exercise control and take appropriate corrective action should the recipient fail to meet the terms and conditions of the grant. For example:

- In March 1990, the Ministry approved a \$232,000 capital grant to build a fire hall. However, instead of prepaying the normal 35 per cent of the grant, the Ministry paid 90 per cent, or approximately \$128,000 more than required. In March 1991, the recipient requested and received an extension for completion of the project. Six months later the recipient advised the Ministry that the fire hall would not be built since the money was used to complete the construction of an existing administration building.

## ACQUISITION PROCEDURES

Agreements between the Ministry and grant recipients require that all goods and services be acquired competitively, subject to a ten per cent pricing allowance for Canadian content.

We reviewed a sample of ten native capital grants totalling \$3 million to assess compliance with this requirement. We found that:

- only one project file contained evidence that the project had been competitively tendered;
- seven project files contained no evidence that the project had been tendered; and
- two project files indicated that goods and services were not competitively acquired.

We were advised that competitive acquisition procedures may be waived in order to give the work to firms employing natives. However, there was no evidence in the files that this was the case.

The Ministry of Culture and Communications' Internal Audit Branch had similar concerns in their 1990 audit report on non-native capital projects.

In the absence of competitive acquisition procedures, there is no assurance that the best possible price has been obtained.

## PROJECT MONITORING

Guidelines for capital grant programs require recipients to submit post-completion reports between six and twelve months after project completion. These reports consist essentially of an accounting of the actual expenditures incurred relative to the original budget.

As a result, there has been virtually no reporting on the operations of the projects or the actual benefits achieved. This, combined with the fact that Ministry staff did not regularly undertake site visits, provides the Ministry with little assurance

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that the grant terms and conditions were complied with, even though they may remain in effect for up to twenty years after project completion. In addition, information on the implementation and effectiveness of past grant projects could be an important factor in assessing future applications.

## **MULTICULTURALISM AND RACE RELATIONS FUND**

The Multiculturalism Fund was established in 1987/88 to serve as an incentive for government-wide multicultural initiatives. Race relation projects became eligible for funding in 1990/91 when the name of the fund was expanded to the Multiculturalism and Race Relations Fund.

In administering the fund, the Ministry's aim is to:

- ensure that as many ministries as possible undertake projects that further the objectives of the Multiculturalism and Race Relations Strategy; and
- influence the initiatives undertaken over time.

### **Project Accountability**

The Deputy Minister of Citizenship annually requests other ministries to submit requests for project funding. These are evaluated by an Interministerial Project Review Committee against the goals of the Multicultural and Race Relations Strategy and priorities established for the year. Subject to Deputy Minister approval, the Ministry then advises successful applicants of the amounts to be funded and administers the funding process during the year.

We found that the accountability relationship between the Ministry of Citizenship as funder and the recipient ministries was not adequately defined. As a result, the Ministry of Citizenship limited its responsibility to project approval and financial administration of the fund.

We were informed that the Ministry of Citizenship does not believe that it has the authority or the responsibility to monitor and evaluate the implementation of the funded projects in recipient ministries. As a result, implementation of individual projects including the results achieved was not monitored by the Ministry, and there is no annual monitoring or reporting on the overall effectiveness or results of the fund.

### **Fund Administration**

#### *Project Selection*

Although the Interministerial Project Review Committee met annually to review and recommend projects for Deputy Minister approval, it maintained little documentary evidence to support the project ranking and recommendation process. We were advised by members of the committee that the results of their deliberations were recorded on their individual project listings which were later summarized and recorded on the grant approval form. While this was the case for 1988/89, information to support project selection was not recorded on that document in subsequent years.

#### *Payment Process*

Ministry procedures require that journal entries requesting funds be accompanied by appropriate documentation, including either copies of paid invoices or a summary of paid invoices identifying the invoice number, amount, supplier activity undertaken and date the expense was incurred.

However, contrary to these requirements, we found that the Ministry often approved journal entries which transferred funds to recipient ministries based on inadequate support. For example:

- a payment of \$99,995 to one ministry was based only on a list of supplier names and amounts paid;

- payments to another project included approximately \$46,000 in overhead costs for ministry salary and benefit costs which are not eligible for funding; and
- three payments totalling \$400,000 for projects that had not yet started or had deliverables late in 1992.

In addition to requests for funds, recipient ministries are to provide mid-year and year-end financial reports which highlight actual expenditures to date against planned ones. However, compliance with this requirement gradually decreased from approximately 50 per cent in 1988/89 to virtually no compliance in 1991/92.

Since 62 per cent of all 1991/92 fund expenditures were paid in the last three weeks of the year, the lack of mid-year financial reports of expenditures incurred and chargeable to the fund makes it very difficult to plan for the fund's cash flow for the year.

## OTHER MATTER

### QUESTIONABLE EXPENDITURES

In 1991, Management Board of Cabinet approved the internal reallocation of \$115,000 to fund projects for Eastern European Initiatives. Subsequently, as part of its 1991/92 Estimates Submission, the Ministry requested additional funding for these Eastern European Initiatives. The objective of the request was to provide grants to organizations that would assist in the democratization process in Eastern Europe.

Our review of Management Board of Cabinet minutes indicated that no decision was made on this initiative, and consequently no funding was provided for it in the 1991/92 estimates.

However, we found that in March 1992, the Minister approved and paid three grants totalling \$129,000 out of Grants for Community Projects for this purpose. As a result, in our view, money was spent for a purpose other than that for which it was appropriated.



## RESPONSE

The Deputy Minister of Citizenship responded to our report on September 2:

### CONTROLS OVER GRANTS

#### PREPAYMENT OF GRANTS

*There are often significant reasons for the acceleration of the second payments for projects. These include the need to acquire materials for winter road access for remote communities to reduce transportation costs and the need for community groups to make a 90 per cent payment for a property purchase.*

*Community-based projects are often more difficult to bring to a final application stage because of the use of volunteer help and overloaded staff. Projects identified for funding early in the year may arrive near year end. The fiscal management practice that segregates cash flow and commitments in a program can lead to a commitment of the full budget in one current fiscal year with the cash flow*



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carried over the next fiscal year so that the budget for future community projects is eroded. This fiscal management practice leads to pressure to collapse first and second payments into one payment.

## **ACQUISITION PROCEDURES**

The primary business of the Native Community Branch is Aboriginal community development. Capital construction projects are a significant means for achieving enhanced community skills in all aspects of construction and project management. The communities will often undergo selection processes within their communities with a view to expanding local business development. Where it is feasible to get tenders (a difficult matter for rural and remote communities) tendering is often done, with evidence remaining on community files.

## **PROJECT MONITORING**

The Community Facilities Improvement Program (CFIP) files which were selected for audit reflected projects which fell under the old CFIP. There was no requirement for regular monitoring. However, since 1991 field staff have been instructed to perform site visits prior to the release of a final payment, especially for large CFIP projects. This goes beyond the stated requirements of the old CFIP program.

It should be noted that the new CFIP Program which was designed in 1989/90 does have a stated requirement for regular monitoring and especially before the release of final payment. Subsequently all CFIP projects under the new criteria must be subject to a site visit once a year for ten years.

## **MULTICULTURALISM AND RACE RELATIONS FUND**

### **Project Accountability**

The Ministry of Citizenship monitored implementation of funded projects through ongoing contact with designated personnel in ministries, and by ensuring that funds were spent on approved projects. This Ministry did not evaluate the results of individual projects, believing this is to be the responsibility of delivery ministries. The Ministry specifically encouraged ministries to undertake evaluations of multiculturalism and race relations projects, and a guidebook to help plan and evaluate initiatives is being prepared. Annual reports were made to the Minister on the use of the Fund.

The Ministry also expects that internal financial and management controls, based on Management Board of Cabinet Directives, will be adhered to within each ministry.

The Multiculturalism Strategy, including the Fund, was reviewed in the spring of 1992. The review included recommendations to enhance effectiveness of the Fund, and the Ministry will be following through with these recommendations.

### **Fund Administration**

#### **Project Selection**

The Ministry will ensure that documentation supporting recommendation of projects from the review committee as well as approvals pertaining to in-year proposals is in place.

#### **Payment Process**

The financial status of all projects was monitored throughout the year through the journal entry process. Through the Fund, the Ministry reimbursed delivery ministries which had spent their own



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fund on approved projects upon receipt of documentation. The Ministry is committed to ensuring that all required documentation is in place prior to payment.

Year-end financial reports from delivery ministries often formed part of the following year's proposal because the call for proposals was sent out in December, towards the end of the fiscal year. Due to a staff vacancy in 1990/91, the Ministry was unable to be rigorous in ensuring that ministries evaluated and/or prepared written reports on their projects. The staffing situation has been remedied, and final reports for last fiscal year are being acquired. In 1991/92, mid-year financial reports were received as part of the constraint exercise on the Fund.

With respect to the examples, please note the following:

The \$46,000 paid for salary and benefit costs went to the Human Resources Secretariat under an exemption obtained from Management Board for a project on monitoring of potential executives.

Payments totalling \$400,000 were pre-flowed to ministries for projects that had been approved for transfer payment agencies. The financial uncertainty of the Fund during 1991/92, the consequent delay in approvals, and the subsequent in-year constraint prevented ministries from starting all projects as planned. Management Board Secretariat was aware that transfer payments were made to agencies with spending occurring in the next fiscal year due to the different fiscal years of some transfer payment agencies.

## OTHER MATTER

### QUESTIONABLE EXPENDITURES

Minutes from Management Board's 1991/92 Estimates meeting indicate that a decision regarding the Ministry of Citizenship's involvement with Eastern European initiatives was deferred.

The Ministry of Citizenship has funded such projects under the Community Projects Grants Program, Special Category, which allows for the approval of a project that results in building bridges of intercultural understanding.

Such projects were approved at a time when immigration from Eastern European countries was very high. The new immigrants' ties with their homeland were still very strong. The support of such projects could result in enhancing the integration and full participation of Ontario's Eastern European immigrant population which is the highest aggregate European group in Ontario. This is consistent with the Ministry's broad mandate of citizenship development. This "special" category also allows for the approval of projects which address matters of a humanitarian nature.

# Family Benefits Assistance

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The Family Benefits program of the Ministry of Community and Social Services provides financial assistance to persons who are in need of assistance for a prolonged period of time. The program's expenditures for the 1991/92 fiscal year totalled \$2.73 billion, of which \$980 million was funded by the federal government under the Canada Assistance Plan.

Our audit objective was to assess the Ministry's administration of the Family Benefits program.

Our audit included discussions with Ministry officials and visits to three local offices. During the 1991/92 fiscal year, these three offices had a caseload of approximately 34,000 clients and were responsible for \$350 million in Family Benefits payments.

## CONCLUSION AND FINDINGS

We concluded that the Ministry's administration of the Family Benefits program was less than satisfactory.

- Based on Ministry staffing standards, the program was understaffed, and required a minimum of 350 more staff.
- Controls to ensure that recipients collect disability pensions to which they are entitled under the Canada Pension Plan were inadequate. We estimated that the Ministry has needlessly paid out \$300 million over the past ten years to recipients who could have qualified for such pensions.

- The Ministry's efforts to prevent and detect fraud were insufficient. A consultant's estimate of fraud averaging 3 per cent per year translates into Ministry losses of \$70 million to \$100 million annually.
- Controls over the recovery, write-off and prevention of overpayments regarding former recipients were inadequate.
- Ministry efforts were insufficient to ensure that sole support parents collect maintenance and child support payments from their spouses.
- Controls to ensure that recipients satisfied the basic eligibility requirements of the Family Benefits legislation were satisfactory.
- Due to a lack of verification of the information used to calculate allowances, an estimated \$30 million to \$50 million was paid out annually to recipients in excess of their entitlement.
- Updating of client information was unsatisfactory.

## BACKGROUND

In the 1991/92 fiscal year, the Ministry spent \$5 billion on social assistance, of which \$2.73 billion pertained to the Family Benefits program.

The Family Benefits program provides a monthly allowance and benefits, such as prescribed drugs, dental care, eyeglasses and home repairs to eligible persons under

the provisions of the *Family Benefits Act* and Regulation. As of March 31, 1992, there were 285,000 recipients of allowances and benefits. These recipients supported 335,000 dependent spouses and children. Each recipient received an average monthly allowance of \$900.

Half of the recipients were sole support parents and 41 per cent were blind, disabled or "permanently unemployable". The remaining 9 per cent included the elderly, parents of disabled children and participants in vocational rehabilitation training.

The current recession has contributed to a significant increase in the caseload. In the past five years, the Family Benefits caseload has almost doubled.

In addition to trying to cope with the escalating caseload, the Ministry is working on several major changes recommended by the Social Assistance Review Committee. This committee undertook a public review of the province's social assistance system and submitted its report, called *Transitions*, to the Ministry in 1988. One of the Committee's major recommendations suggested merging the *Family Benefits Act* and the *General Welfare Assistance Act* into a single piece of legislation.

In May, 1992 the Advisory Group on New Social Assistance Legislation released *Time for Action*, a blueprint for new legislation.

## COMMENTARY

The Ministry administers the Family Benefits program through 13 area and approximately 40 local offices, and employs about 1,400 staff to deliver the program. Approximately 10 per cent of the program's caseload is administered by municipalities.

The front line delivery of the program is performed by the Ministry's 800 Income Maintenance Officers. They take applica-

tions, verify information, determine eligibility, periodically update information to ensure ongoing eligibility, and provide information, guidance and direction to clients.

## STAFFING

The Ministry's 800 Income Maintenance Officers (caseworkers) administer over 250,000 Family Benefits cases, or on average 320 clients per caseworker. These caseworkers can spend only five hours per year on each case. This is insufficient time for caseworkers to perform their work adequately.

In 1991 the Ministry had 600 caseworkers and received approval to hire an additional 200 staff. The request for the additional staff to Management Board in January 1991 noted that "the effect of the continued increases in workload at the intake and basic administration levels has been to severely reduce the ability of the Ministry to meet program objectives and thus to balance and fulfil its obligations to eligible clients, to the legislation and to the tax-paying public." At the time of the request, the caseload averaged 330 clients per caseworker. The increased staffing has been only marginally helpful as the caseload has continued to increase due to the current recession.

A 1991 Ministry staffing study concluded that service to recipients could be effectively met with a caseload standard of 275 clients per caseworker. The study also observed that for every case above 275, progressively more functions would go undone to a point at which even critical functions would not be performed.

Our work at the three local offices we visited essentially supported the results of the Ministry's staffing study. We found that the administration of the Family Benefits program was satisfactory at one office which had an average caseload of under 275 clients per caseworker. At the other

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two offices, where the caseload exceeded the standard, administration of the program was not satisfactory. Caseworkers we interviewed stated that they did not have enough time to adequately perform their duties.

Only 11 of the Ministry's 40 local offices had a caseload at or below the ideal 275 clients per caseworker. Over 80 per cent of the Ministry's cases were handled by caseworkers who had insufficient time to perform all their tasks. Three of the offices had a caseload in excess of 375 clients per caseworker. At this caseload, according to the staffing study, only half of the work would get done.

Workload pressures contributed to many of the deficiencies in administration of the Family Benefits program noted in this report. If 275 clients per caseworker is considered an acceptable standard, then the program needs a minimum increase of 350 staff.

In May 1992, the Ministry announced plans to hire 450 more staff at a cost of \$18 million. This is expected to improve service to social assistance recipients and enable the Ministry to implement new measures and achieve greater efficiency in the system.

## DISABILITY PENSIONS

The Ministry did not ensure that recipients collected disability pensions due to them under the Canada Pension Plan (CPP). The monthly allowances paid to eligible recipients would have been significantly reduced, or eliminated altogether, by the CPP pensions due to, and collectable by, the recipients. If all of these recipients had been granted CPP, we estimate that over the last ten years, the Ministry would have saved \$300 million in Family Benefits.

There is no financial incentive for a recipient to apply for a CPP disability pension because the recipient's Family Benefits monthly allowance is reduced by an

amount equal to the pension received. Therefore, the onus is on the Ministry to ensure that eligible recipients apply for the CPP pensions due to them.

We reviewed the files of approximately 170 "permanently unemployable" and disabled recipients. We noted that:

- 15 per cent of the cases tested were likely eligible for a disability pension, but no application had been sent to the federal government;
- 26 per cent of the cases tested contained an incomplete work history and eligibility could not be determined; and
- 59 per cent of the cases tested were either already in receipt of a CPP pension or were clearly ineligible for a pension due to insufficient CPP contributions.

Under CPP rules, eligible recipients can recover up to 12 months of retroactive benefits. If all those we found who were likely eligible were granted CPP then at the time of our audit in January 1992, an estimated \$70 million would have been potentially recoverable from the federal government.

In May 1992, the Ministry announced plans to identify recipients eligible for income from other sources, such as the Canada Pension Plan, and to assist these recipients to secure that income.

## FRAUD PREVENTION AND DETECTION

The Ministry has established guidelines to deal with fraud. However, we noted that efforts to prevent and detect fraud were insufficient.

The Ministry has 15 eligibility review officers who specialize in investigating and gathering information to be used as evidence to support decisions on eligibility, civil proceedings and criminal prosecutions. Allegations investigated most com-



monly include undisclosed earnings, cashing of duplicate cheques, ineligible dependants, undisclosed assets or an unreported spouse.

We reviewed the files for over 100 sole support parent cases. In three cases, evidence suggested that the recipients were living with their legal spouses. For example:

- Four complaints had been received over two years alleging that the recipient's spouse was living at the same address. These complaints were not followed up in accordance with Ministry policy. On two occasions, the recipient signed a declaration that the spouse did not reside in the same home. The Ministry discovered that the spouse did use the same address, but no formal investigation was ever conducted.

Despite the existence of procedures to follow up on potential frauds, the Ministry was not aggressive in prosecuting suspects or in obtaining restitution. For example:

- the Ministry discovered that a recipient and spouse had worked full time for over three years and had not reported all their income. This alleged fraud cost the Ministry \$25,000. Neither a civil nor a criminal case was pursued. We were advised by the Ministry office responsible that it did not prosecute frauds of this nature; and
- a sole support parent lived with a common-law spouse for over five years. The recipient was charged and convicted of fraud. In 1987, the court ordered restitution of \$26,000 and issued a writ of seizure and sale of the recipient's home. The common-law spouse also signed a promissory note to reimburse the Ministry. Nothing has been collected to date and the Ministry has not enforced the writ.

Because of the nature of fraud, it is not possible for the Ministry to accurately

quantify its total extent. However, in 1987, a consultant retained by the Social Assistance Review Committee reported that the proportion of funds lost through welfare fraud represented at least 2.59 to 3.66 per cent of the total payments within the Ontario social assistance system. Applying these percentages to Family Benefits payments of \$2.73 billion would indicate a loss through fraud of between \$70 million to \$100 million for the 1991/92 fiscal year.

The Ministry is in the process of hiring 35 additional eligibility review officers and has recently drafted a new policies and procedures manual. In May 1992, the Ministry announced that with the additional staff they will be in a better position to detect and reduce fraud to ensure that people on the system are those who truly need assistance.

## OVERPAYMENTS

Overpayments occur when the allowances paid exceed the amounts Family Benefits recipients are entitled to receive. Overpayments that arise essentially as a result of delays in recipients failing to report changes in personal or family circumstances, or in not disclosing or misrepresenting facts, are considered collectable by the Ministry. As of March 31, 1992 such overpayments totalled approximately \$140 million, with \$80 million due from active recipients and \$60 million due from inactive (former) recipients. Additionally, overpayments totalling more than \$50 million have been written off as uncollectable by the Ministry over the past five years.

Overpayments arising from recipients being paid a greater allowance than they are entitled to because of a Ministry error are not considered collectable. During the 1991/92 fiscal year, such overpayments totalled \$1 million.

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## OVERPAYMENT RECOVERY

Overpayments due from active recipients are normally recovered by an average 5 per cent reduction in their monthly allowance until the full amount of the overpayment has been repaid. We found that the collection of overpayments from active recipients was generally satisfactory.

In the case of overpayments collectable from inactive (former) recipients, the Ministry attempts to negotiate a repayment schedule with the recipients. If unsuccessful, or if payments fall into default for over 60 days, the overpayment is required to be referred to the Central Collection Service of the Ministry of Government Services. We reviewed the Ministry's collection efforts to recover the \$60 million owed to the Ministry by former recipients. We found that collection efforts were inadequate:

- in 70 per cent of the cases we reviewed, none of the outstanding debt had been repaid. We estimated that during the 1991/92 fiscal year, the Ministry collected less than 3 per cent of outstanding overpayments. The Ministry's collection program relied on voluntary repayment. Legal remedies were not pursued; and
- we found that delinquent accounts were rarely referred to the Central Collection Service of the Ministry of Government Services as required by Ministry policy. The Central Collection Service has a better collection record than the Ministry. For example, an overpayment of \$38,000 arose in 1988 because a former recipient was not living as a sole support parent. Computer-generated monthly statements were sent to the recipient until August 1991, when the statements came back undelivered. No further action was taken and nothing has been collected to date. Even though the case has been delinquent for three years, it has not been referred to the Central Collection Service.

A contributing factor to the poor collection effort is a lack of staff to collect overpayments. The Ministry indicated that overpayment collection from former recipients was of secondary importance to managing the active caseload.

## OVERPAYMENT WRITE-OFFS

Order-in-Council approval is required before an overpayment can be written off. The practice of assessing uncollectable overpayments for write-off varied at the three offices we visited. One office had given caseworkers full responsibility for assessing write-offs, a second office had assigned one employee to handle all overpayments, and the third office did not assess any accounts for write-off.

Ministry policy permits recommending overpayments for write-off only when the recipient has no financial ability to repay the debt. However, we found that overpayment balances were commonly written off without such an assessment. The reason given in 60 per cent of the write-offs we reviewed was that the whereabouts of the former recipients were unknown. There was no evidence that any efforts had been made to locate these recipients. For example:

- A recipient's allowance was terminated in August 1988 with an outstanding overpayment of \$23,000. The recipient repaid \$10 in 1988 and \$21 in 1989. Monthly statements were returned in February 1990 without a forwarding address. No further efforts were made to search for the recipient and the overpayment was written off.

The Ministry of Treasury and Economics requires that opportunities to recover amounts owed, even subsequent to write-off, should be pursued. However, some former recipients who had their overpayments written off were again receiving Family Benefits allowances. The overpayments previously written off were not reinstated for recovery.

We estimate that \$2.6 million in overpayments written off in 1988/89 and 1989/90 pertained to recipients who were again receiving assistance. The Ministry collects overpayments due from active recipients by reducing the basic monthly allowance by 5 per cent. Therefore, the Ministry has been effectively foregoing the collection of over \$300,000 per year from these recipients.

## OVERPAYMENT PREVENTION

Some recipients receive their full Family Benefits allowances while waiting to receive income from other sources. Their allowances are subsequently adjusted when they start receiving additional income. A case in point is a recipient's entitlement to disability benefits under the Canada Pension Plan.

The Canada Pension Plan pays retroactive disability pensions for up to 12 months. An overpayment occurs when a recipient has received a full Family Benefits allowance and later receives a retroactive pension payment after approval of the pension application. To avoid an overpayment, the recipient can direct the federal government under the *Canada Pension Plan Act* to send the retroactive payment directly to the Ministry.

We found that the Ministry does not normally receive an assignment of retroactive payments. During a nine-month period in the 1991 calendar year, we estimated that at least 1,000 recipients received a retroactive Canada Pension Plan payment. However, Ministry records indicate that fewer than 200 retroactive payments totalling \$700,000 were assigned to the Ministry. For the other 800 recipients, we estimate that overpayments of \$3 million occurred as a result of retroactive payments not being assigned to, or collected by, the Ministry. For example:

- in March 1987 a recipient applied for the Canada Pension Plan disability

pension. The recipient signed a consent form to assign the retroactive payment receivable from the federal government to the Ministry. The consent form was never sent to the Canada Pension Plan office. Consequently, the recipient later received a cheque for retroactive disability benefits but did not pay the amount of \$13,500 received to the Ministry. The Ministry has recorded the amount as an overpayment and is now recovering the amount, per Ministry policy, at the rate of approximately \$30 a month from the recipient's Family Benefits allowance.

In May 1992, the Ministry announced that every effort would be made to streamline the system to minimize overpayments and to increase efforts to recover overpayments paid to clients who have left the social assistance system.

## MAINTENANCE AND CHILD SUPPORT

The Ministry pays approximately \$1.3 billion annually to over 140,000 sole support parents. Some of these recipients collect maintenance or child support payments from their spouses. The Ministry deducts such payments received from the monthly allowances payable to these recipients. We estimate that currently over \$50 million in such payments are being collected annually by recipients and deducted from their allowances.

The Ministry has developed detailed procedures to guide staff and assist sole support parents in the pursuit of maintenance and child support payments. We reviewed these procedures and over 100 sole support parent files. We found that:

- in over 70 per cent of the cases, either no support was received or only nominal amounts were received. In many cases, evidence suggested that the recipients had not made reasonable efforts to obtain support from the other



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parent. The Ministry did not reduce the monthly allowances in any of these cases, although it has the authority to do so under the Family Benefits legislation;

- Ministry procedures were not adequately performed in over 50 per cent of the cases. For example, a recipient was granted assistance in April 1991 as a sole support parent. The spouse offered to pay \$100 per month in child support. No follow up on this offer was made and no support was received;
- a primary reason for waiving the pursuit of support is the unknown whereabouts of the other parent. Ministry policy requires a review of such cases periodically to determine whether circumstances have changed. However, in 70 per cent of the cases we examined, these waivers were not reviewed on a timely basis. We estimate that there are 40,000 such cases across the province; and
- caseworkers are required to ensure that the amount of existing support payments are adequate in light of the other parent's ability to pay. We noted that adequacy of support received was not assessed when the circumstances of the other parent changed. For example, a recipient negotiated \$50 per month support in February 1989. This amount was considered appropriate at the time because the spouse was unemployed. However, subsequent file updates indicated that the spouse was working full time. The recipient continued to receive \$50 per month because the adequacy of the amount was not reconsidered. One of the offices we visited responded that court orders and private agreements are not being reviewed for adequacy due to workload demands.

The Ministry has only 50 parental support workers to assist sole support parents to locate and obtain support from their

spouses. The Ministry has determined that direct savings resulting from the parental support function exceed costs by a ratio of 14 to 1. Thus, significant savings would be realized if the parental support function were expanded.

New family support legislation went into effect in March 1992. This legislation makes Ontario the first province to implement mandatory payroll deductions of court-ordered support payments.

Also, in May 1992, the Ministry announced plans to hire new staff to address the issue of support.

## ELIGIBILITY

Unlike the General Welfare Assistance program which provides short-term assistance to persons in need, the Family Benefits program provides assistance on a long-term basis.

To be eligible for assistance, applicants must meet two basic criteria. Firstly, applicants must fall into one of the eligibility categories defined in the *Family Benefits Act* and Regulation. These categories include sole support parents, the disabled, the elderly, parents of disabled children, and participants in vocational rehabilitation training. Secondly, applicants must demonstrate a need for assistance. If applicants have assets or income in excess of specified amounts, they are expected to support themselves and are not eligible for an allowance or benefits.

## BASIC ELIGIBILITY

We reviewed a representative sample of 300 case files at the three Ministry offices we visited to determine whether the recipients were eligible for assistance as set out in the Family Benefits legislation. We noted that:

- all of the 167 recipients who were blind, disabled or "permanently unemployable" were correctly certified within the



meaning of the Family Benefits legislation. However, in three cases the recipients were given an increased allowance for a "permanently unemployable" spouse when the spouse was not certifiable as such. The Ministry overpaid these recipients by \$10,000; and

- of the 104 sole support parents, there were three cases where the eligibility of dependents was questionable. For example, in one case the recipient received an increased allowance for a child which was in the care of a Children's Aid Society. The Ministry paid out an additional \$9,000 in the three cases on the basis that such dependents were eligible; and
- the Ministry had properly established basic eligibility for the remaining 29 recipients in our sample who were elderly, in vocational training or parents of disabled children.

We also reviewed each of the 300 cases to determine whether the recipients had assets in excess of the limits imposed by legislation. We found six clients whose assets exceeded these limits. For example, one recipient had \$8,000 in the bank which exceeded the \$5,500 limit. In three cases, recipients owned cars and, contrary to Ministry guidelines, the necessity of the vehicles had not been established.

Our audit was limited in scope to a review of the information contained in each case file. We accepted this information unless inconsistencies were evident. We cannot attest to the accuracy or completeness of the recipients' disclosures.

With the above exceptions, we were generally satisfied that the Ministry had properly established the basic eligibility of recipients.

## VERIFICATION OF CLIENT INFORMATION

Persons in need of financial assistance meet with a caseworker to complete an application form. The information provided is used to determine the applicant's eligibility and the amount of assistance. The caseworker is required to inspect documentation from the applicant such as birth certificates, rent receipts and employment pay stubs. Where applicable, this information must be updated and verified annually.

We found that the information upon which the allowance was based was not always verified either at the time of application or during the annual updates. For example:

- most recipients receive a variable shelter allowance which is based on the amounts paid for rent, mortgage, property taxes, heating, utilities and other costs. If such costs are not properly verified, the monthly allowance paid could be incorrect. We noted that actual costs were not verified in 27 per cent of the cases we reviewed. For example, a recipient moved to rental housing in September 1988. Until late 1991, the recipient continued to receive an allowance for property taxes, heating and utilities even though these expenses were no longer paid. Lack of verification resulted in this recipient being overpaid by \$5,000;
- the monthly allowance paid to recipients varies depending on the number of dependant children in the family and their ages. Consequently, verification of birth is mandatory for all dependants. In 12 per cent of the recipients reviewed who had dependants, the birth date of a dependant child was never verified. For example, a verification of birth request sent to the Registrar General in 1989 was returned "No Record". This was not followed up to ensure the existence and parentage of the child; and

- a benefit is provided to the parents of severely disabled children to help meet the ongoing costs of the disability. The amount of this benefit is based on the cost of the special needs resulting from the disability, and on the income of the parents. In our sample, we questioned the amounts paid to four of eleven parents because their incomes had not been reported or verified annually as required.

We estimate that the Ministry has overpaid \$30 million in Family Benefits across the province due to a lack of proper verification of information provided by clients. A 1991 audit of an area office by the Ministry's Comprehensive Audit and Review Branch estimated the overpayment at \$50 million, based on an error rate of 2.3 per cent applied across the province.

## UPDATING OF CLIENT INFORMATION

Ministry policy is to review every case annually to ensure that recipients continue to be eligible and that the proper amount of allowance is paid. Caseworkers meet with sole support parents each year to complete a Client Information Update Report and meet with most other recipients every third year. During the intervening two years, these other recipients are required to complete an update report and mail it in to the Ministry.

We noted that the annual file updates had not been performed in over a year for almost 15 per cent of the recipients tested. For example:

- a recipient was granted assistance in February 1987. The last Client Information Update Report was completed in December 1988;
- another recipient was granted assistance in April 1987. Reports were mailed in by the recipient in the years 1988 to 1991. However, there had been no personal contact by a caseworker with the recipient since assistance was granted. According to Ministry policy, a Client Information Update Report should have been completed in April 1990;
- a Client Information Update Report for a sole support parent had not been completed since June 1989. Employment earnings were reported by this client up to September 1990. A deduction from the recipient's allowance for these employment earnings was still being made in October 1991 based on earnings estimated over a year ago; and
- a recipient's file had not been updated since June 1990, and we questioned why the individual was not receiving a pension from the Canada Pension Plan. The Ministry subsequently reviewed this case and found that the recipient had, in fact, been receiving a pension since December 1990. As a result, this recipient had been overpaid approximately \$9,000.

Lack of up-to-date information on file for the recipients tested makes it difficult, if not impossible, to determine whether recipients are being paid the proper amount.



## RESPONSE

The Deputy Minister of Community and Social Services responded to our report on September 14:

*Many of the initiatives announced by the Minister in May of this year will address the concerns identified in your report. The following are our comments in response to the specific issues raised in the report.*

### STAFFING

*I appreciated your recognition of the impact that caseload growth has had on the Ministry's ability to fulfil our obligations to eligible clients, to the legislation and to the taxpayer. You clearly identified the need for additional staff in order to address the workload pressures which have contributed to many of the deficiencies in administration of the Family Benefits program.*

*In the spring, the Ministry received approval to hire 450 additional staff in order to ensure that the legislative requirements of the Family Benefits Act are fulfilled, opportunities for recipients to obtain financial independence are maximized, customer service is improved at the intake level, inaccuracy of payments to recipients is minimized and the ability of program delivery staff to do their job is improved.*

*As of June 30, 1992 an initial 200 staff have been hired and are in the process of being trained. The balance of 250 staff will be hired on a phased-in basis.*

*With the additional staff, the Ministry will be able to address many of the shortcomings identified in your report.*

### DISABILITY PENSIONS

*The Ministry agrees that there are savings to be accrued through greater emphasis in ensuring that eligible recipients apply for CPP benefits that may be due to them. I appreciate your bringing this issue to our attention early in the course of your audit. This enabled the Ministry to quickly respond to your concern by taking steps to prevent future overexpenditure of Family Benefits allowances.*

*The Ministry has undertaken a review of all disabled and permanently unemployable recipients who are not in receipt of CPP. Recipients who have potential CPP eligibility have been advised to make application. The results are being monitored to ensure that, where appropriate, allowances are adjusted in a timely manner. Once the review has been completed, the Ministry will be in a position to quantify actual savings from this activity.*

*Staff have also been directed to improve practices to inform applicants/recipients about other income to which they may be entitled, emphasize the requirement to pursue this income and utilize the assignment form which allows for reimbursement to the Treasurer of Ontario of any arrears.*

*The Ministry is also making changes to the automated system which will improve workers' ability to follow up on cases where pursuit of other income is an issue.*

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## FRAUD PREVENTION AND DETECTION

*As of June 30, 1992, 30 additional Eligibility Review Officers have been hired. Increasing the number of Eligibility Review Officers will result in more effective prevention, detection and prosecution of fraud as well as increased recovery of funds.*

*The Ministry agrees it is not possible at this time to accurately quantify the extent of fraud. We are in the process of developing an automated data system which will make it possible to better assess the degree of fraud, and to focus our efforts to minimize its occurrence.*

## OVERPAYMENTS

### OVERPAYMENT RECOVERY

*The Ministry has increased its efforts to recover overpayments paid to clients who are no longer in receipt of Family Benefits. Staff have been assigned in each Area Office to ensure effective review and follow up on closed cases with overpayments. Where efforts to recover are unsuccessful, cases will be referred to the Central Collection Service of the Ministry of Government Services.*

*The Ministry is continuing to work with Central Collection Services to improve referral and collection procedures in order to better achieve our mutual goal of increasing the amount of debt repayment.*

### OVERPAYMENT WRITE-OFFS

*The Ministry agrees that improvements can be made in its policy and procedures for writing off overpayment balances. A review of Ministry policy and procedures will be undertaken within the next year and changes will be made to ensure that the Ministry does not forego the collection of overpayments as long as meaningful opportunity to recover exists.*

### OVERPAYMENT PREVENTION

*The Ministry is cognizant of the need to minimize the amount of improper payments to recipients of Family Benefits. Prevention of overpayments will benefit the Ministry, the client and the taxpayer.*

*The initial 200 staff, including 111 Income Maintenance Officers, which were hired to address immediate workload pressures, will be concentrating on savings objectives such as overpayment recovery, eligibility for other income such as CPP and support, eligibility review, employment linkages and increased use of direct deposit of the payment of FBA allowances.*

*Eligibility Review Officers will be more pro-active in identification of patterns and high risk situations and in conducting random reviews.*

*The number of Program Review Officers has been increased by 13 to ensure more efficient management of the program by timely completion of compliance and operational audits. This includes audits of case files to ensure proper application of program rules. Intervention of additional PRO staff will provide greater detection of error resulting in net savings due to reduction of undetected overpayments.*



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## MAINTENANCE AND CHILD SUPPORT

*The number of Parental Support Workers has been increased by 49 to enhance the Ministry's ability to assist clients in securing support agreements/orders, review adequacy of support obligations, follow up to identify cases with arrears and facilitate collection.*

*Income Maintenance Officers will be directed to ensure that information on the whereabouts of the absent parent is updated at the time of each annual review.*

*As you know, responsibility for enforcement of support orders lies with the Ministry of the Attorney General, which administers the Family Support Plan. I have written to my colleague in that Ministry to seek his cooperation in ensuring appropriate service for social assistance clients.*

### 3.03

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## ELIGIBILITY

### BASIC ELIGIBILITY AND VERIFICATION OF CLIENT INFORMATION

*I am pleased to know you were generally satisfied that the Ministry had properly established the basic eligibility of recipients. However, with additional Income Maintenance staff, the potential for error will be even further reduced.*

*Your findings confirm the importance of proper file documentation to support decision making around eligibility and entitlement. As part of a recent review, the Ministry will be establishing clear guidelines to reinforce documentation requirements.*

*Verification of information relevant to eligibility determination is a key component of the accountability process. It is Ministry policy that visual verification is acceptable as long as the verification is noted on file. I believe that staff are verifying information with clients, but it is possible that recording is insufficient.*

*In many instances, verification cannot be produced at the time of contact and follow up is required. Workload pressures have contributed to the ability of staff to deal sufficiently with the demand for follow up. The additional staff coupled with system changes will help to address this issue.*

*There will be communication with staff, and appropriate follow up, to ensure there is a clear understanding of documentation requirements.*

### UPDATING OF CLIENT INFORMATION

*I fully agree that lack of up-to-date information presents a problem when attempting to determine whether recipients are being paid the proper amount.*

*Inadequate staffing has greatly contributed to this problem. Once again, the addition of new Income Maintenance staff will help to ensure that regular eligibility reviews are completed.*

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## MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS:

# Elevating Devices

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The Ministry of Consumer and Commercial Relations spends approximately \$4.5 million annually to ensure that elevating and amusement devices installed and operated in Ontario are safe for use and meet required safety standards. Traditionally over 80 per cent of these costs have been recovered in the form of licensing and inspection fees.

We assessed whether elevator inspection efforts were adequate to ensure that required safety standards were being met. Our audit focused on elevating devices and was conducted primarily at the Ministry's head office. We accompanied inspectors on field visits and obtained information from them by means of questionnaires and interviews. We also interviewed representatives of an All-Industry Committee representing the National Elevator and Escalator Association and the Canadian Elevator Contractors' Association.

## CONCLUSION AND FINDINGS

Inspection efforts were inadequate to ensure the relevant safety standards were being complied with.

- Although Ministry standards generally require elevators to be inspected every two years, inspections were being done on a five- to six-year cycle. Other provinces are generally on an annual inspection cycle.
- The Ministry needed to improve its ability to set inspection priorities and

optimize inspection resources. For instance, three districts with a history of inspection backlogs, fatal accidents and contractor prosecutions did not have a full-time inspector on staff.

- Disciplinary action against elevator contractors who repeatedly violated important safety requirements was inadequate. For instance, the Ministry took limited disciplinary action against 22 contractors who serviced 12,000 elevators, despite the fact that many of them have had their performance rated as unacceptable since 1987.
- The Ministry lacked specialized electronic engineering expertise to enable it to evaluate certain electronic components in new and existing elevators.

## BACKGROUND

The objective of the Elevating Devices Branch is to reduce the risk of death or injury to the public arising from the use of elevating devices. The Branch receives its mandate from the *Elevating Devices Act* and Regulations.

The Act calls for elevator owners to prominently display their annually issued licences to operate elevators. These licences only provide assurance that the elevators have passed an initial inspection, since a re-inspection is not required to renew the licence each year.

The Branch's main activities with respect to elevating devices are:

- registration and review of engineering designs for new and altered devices;
- initial inspection and approval of such devices prior to their being put into operation;
- periodic inspections of existing installations;
- registration and monitoring of elevator contractors who install, maintain and repair devices; and
- investigation of safety-related incidents and complaints.

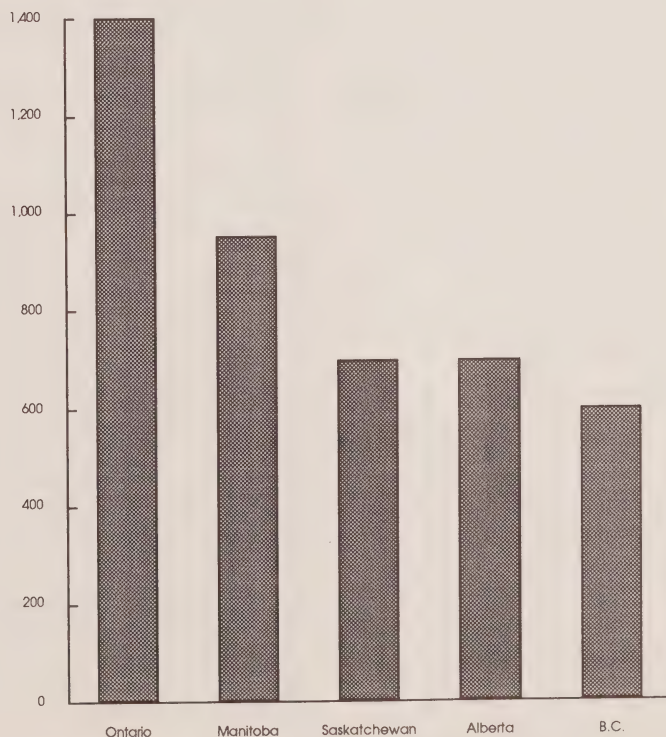
At the time of our audit, the Branch had a staff of approximately 70, of whom 25 were qualified elevator inspectors, 9 were eleva-

tor inspector trainees, and 22 handled the licensing of elevators and the registering of contractors and engineering designs. The remaining staff provided technical and administrative support, and regulated amusement devices.

The Branch is responsible for approximately 35,000 elevating devices, most of which are passenger elevators. Other elevating devices include escalators, lifts and hoists.

The number of elevators in Ontario has risen by 45 per cent since 1978. However, the number of elevator inspectors has decreased by 34 per cent. Ontario's ratio of installations per inspector is approximately double that of some other provinces, as illustrated in the following graph.

*Approximate Number of Elevating Installations Per Inspector - By Province*



Ministry records show that nearly 90 per cent of Ontario's elevators are serviced by 1,600 mechanics working for 200 general contractors. The rest are serviced by 1,300 mechanics under the direct employ of 300 building owners.

## COMMENTARY

### INSPECTION COVERAGE

A strong inspection presence can significantly deter non-compliance with the Act and Regulations, thereby minimizing public safety risks in the use of elevators. This is particularly important given that elevator mechanics are not members of a licensed or regulated trade.

This has been echoed by the elevator industry, Ministry inspectors and coroner's inquests. In fact, Ministry standards call for periodic inspection of virtually all elevators in the province at least once every two years. These standards are in line with those of other provincial jurisdictions which generally strive for and accomplish an annual inspection cycle.

Our review showed that on average, an Ontario elevator is re-inspected only once every five to six years.

This is a significant decrease from 1978 when, on average, Ontario elevators were inspected annually. Specifically:

- Approximately 40 per cent of Ontario's elevators were overdue for inspection. This backlog ranged from 12 per cent in one district to 62 per cent in another.
- Two thirds of the 6,000 elevators installed in the last four years had not been re-inspected since their original installation.

In addition, we noted:

- Non-compliance rates had virtually doubled in the last ten years. In 1992,

50 per cent of inspections detected non-compliance requiring follow-up, compared with 24 per cent in 1981. Given the current inspection backlog, the amount of undetected non-compliance could be significant.

- The nature and extent of non-compliance had also worsened. At the time of our audit, deviations averaged 2.6 violations per inspection, compared with 1.3 in 1978, and these violations were more serious in nature.
- The number of minor accidents had risen from 384 in 1988 to 508 in 1990.
- Coroners' juries investigating fatal elevator accidents have recommended that inspection coverage be improved.

A recent Ministry study indicated that the cost of hiring additional inspectors could be more than offset by the inspection fees generated.

### INSPECTION FOCUS

We acknowledged that much of the inspection backlog could be explained by the fact that the number of elevating devices had almost doubled since 1978 yet the number of elevator inspectors had decreased. In times of constrained resources, it is particularly important that management determine the most critical operational priorities and allocate resources accordingly.

Discussion with Ministry personnel and representatives from the elevator industry revealed that ongoing maintenance by the contractors' mechanics was the key factor in keeping elevators in good working order. While the Branch rates the performance of elevator contractors, we saw little correlation between this rating and the scheduling of inspections.

For instance, nearly 35 per cent of Ontario elevators were serviced by 22 contractors whose performance had been consistently rated as unacceptable by the Ministry, some as far back as 1987. Despite this risk,



these installations were not being inspected more frequently.

In reviewing the allocation of inspectors, we noted that despite having a history of inspection backlogs, fatal accidents and contractor prosecutions, three districts in the province lacked a full-time inspector and consequently had significant inspection backlogs. We recommended that inspectors be allocated to these districts on a part-time basis to reduce the current backlog.

The Branch recognized the need to improve this aspect of their operation, and is in the process of developing a database to enhance its ability to set inspection priorities based on risk.

## ENFORCEMENT

The *Elevating Devices Act* calls for the Ministry to register and monitor all contractors who install, maintain and repair elevators. The spirit of the Act calls for contractors to have an adequate number of competent mechanics who are familiar with the *Elevating Devices Act* and Regulations.

The Ministry has various powers under the Act to deal with unacceptable contractor performance. These include shutting down an installation until compliance is achieved, calling hearings and issuing warnings, revoking or suspending licences, and prosecution.

We found disciplinary action against the 22 contractors, many of whom had repeatedly received unacceptable performance ratings since 1987, to be inadequate. For instance:

- Despite this continuous unacceptable performance, only a limited number of disciplinary hearings and prosecution attempts were made. None of these repeat offenders had their registration revoked or even temporarily suspended.
- Disciplinary hearings were usually case specific, and did not address overall

poor performance. Furthermore, prosecution attempts were generally limited to situations involving serious injury or death.

- One such contractor servicing 13 per cent of the province's elevators, had had an unacceptable rating since 1988 and was successfully prosecuted in connection with a 1989 fatality. No subsequent disciplinary action was taken despite continued poor performance and serious safety complaints.


The Act has clearly provided the Branch with the necessary measures to protect the safety of the public. While such measures must be used judiciously, in situations where contractors have consistently failed to meet the required safety standards, the Branch must be prepared to take the appropriate action to ensure compliance with established standards.

## RESOURCE EXPERTISE

Discussions with Branch officials and the elevator industry revealed that elevating technology has changed considerably over the past 30 years, particularly in the area of electronics. Electronic controls are important safety features designed to prevent:

- the elevator moving while the doors are open;
- doors to the elevator hoistway opening when the elevator is not there; and
- doorways closing on passengers.

The Branch lacked specialized electronic engineering expertise to thoroughly review and test new elevator installations.

Branch managers estimated that around 10,000 elevators may not meet required safety standards. Furthermore, there have been cases in which elevator manufacturers have notified the Ministry of potentially dangerous deficiencies in these devices after decades of operation. 

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# RESPONSE

The Deputy Minister of Consumer and Commercial Relations responded to our report on September 10:

*Ministry management recognizes that the level of periodic inspection activity in the Branch has dropped in the past five years while the ratio of installations to inspectors has risen. To ensure that public safety risks are minimized, the Branch has undertaken a number of significant initiatives to increase its productivity while continuing to meet its corporate commitment to fiscal restraint.*

*In addition to the specific initiatives outlined [below], the Ministry is continuing to review alternate service delivery options and funding mechanisms to increase the resource base of the Technical Standards Division.*

## CONCLUSIONS AND FINDINGS

*We do not agree that inspection efforts were inadequate to ensure compliance with safety standards.*

### Point #1

*A two-year inspection cycle for elevators is not necessarily required for every device in order to protect public safety. While many provinces inspect annually, inspection cycles do vary: in Alberta, inspections occur every two years and in British Columbia, every 30 months. The frequency of inspection need depends on many factors: the type of components in the device, its maintenance history and the type of directions issued against it. Elevators have many redundancies built into them to ensure that should a system fail, a back-up system will take over. Inspection may result in directions being issued for relatively minor code infractions rather than for violations which could result in serious safety problems. An average inspection cycle is not meaningful given the differences among individual devices.*

*The Elevating Devices Branch is currently implementing an automated licensing, registration and inspection system which will provide management with a sophisticated risk-management tool. Phase I of the Inspection, Design, Engineering, Data Cross Reference System (INDEX) has been implemented. Phase II, the inspection system, is expected to be implemented in the fall of 1992. When the new data base is fully populated, the Branch will have the ability to cross-reference the inspection history of an elevating device, its technical specifications and the performance record of its maintenance contractor in order to assign a periodic inspection cycle based on the identified risks for each device. This cycle may be annual or it may be as high as every five to six years.*

### Point #2

*The Elevating Devices Branch does not have the number of inspectors which it requires to provide on-going inspection coverage to all areas of the province. As a result, there are three districts which do not have a full-time inspector on staff. Two districts in Ottawa and one in Thunder Bay have been vacant both because the Branch has not had sufficient resources to hire additional staff and because it has had difficulty recruiting staff when resources did become available in the past. On an "as needed" basis, other inspectors travel to those three districts now. To further address these difficulties, the Branch began a three-year internal training program in 1990. Three trainees started*

in August 1990 and another six were hired in July of 1991. When the first trainees have completed the training program in 1993, they will be assigned to the vacant districts.

The Branch will also be utilizing the four inspectors currently assigned to amusement devices and construction hoists to conduct periodic inspections on a part-time basis. This temporary reassignment is possible because of the recent general decline in construction activity.

### **Point #3**

The Elevating Devices Act places responsibility for compliance with owners and maintenance contractors through regulations and codes which set safety standards. Contractor performance ratings are determined by analyzing the directions issued against the installations maintained by each contractor. The performance rating therefore is based only on the inspections that have taken place and does not necessarily reflect performance for all installations maintained by an individual contractor. Therefore, we dispute your statement that disciplinary action was inadequate. Further, an unacceptable rating only applies to specific sites, not to every site being maintained by a contractor. We have taken appropriate action on specific site concerns.

In taking disciplinary action against a contractor, the Branch evaluates the impact of the range of options available under the Elevating Devices Act. For example, any installation which is deemed to be unsafe is ordered shut down until repairs or modifications are made. Each violation of the Act must be examined on an individual basis to determine the most appropriate and cost-effective means to ensure compliance. The Director has the authority to revoke a contractor's licence, subject to a hearing. The Act also provides for an appeal to the courts by the contractor. Prosecution can also be initiated for individual violations.

These processes can be time-consuming, expensive and, in the case of licence revocations, the impact on all clients of the contractor must be assessed. If a licence is revoked, buildings with installations where no violations have been found may be deprived of maintenance. Prosecution has a deterrent effect and the Branch does take that action when violations occur. Over the past three years, for example, 19 prosecutions have taken place.

### **Point #4**

The need for specific electronic engineering expertise within the Elevating Devices Branch is recognized. Resources have not been available to fund this position and recruitment could have taken place in the past two years only if two critical inspector-trainee positions had been eliminated. It must be noted, however, that the Branch does have extensive engineering expertise and that all design specifications submitted to the Branch have been reviewed and sealed by a professional engineer prior to their submission. However, as the components on elevating devices become more sophisticated, the need for internal expertise has grown. The Branch has therefore taken steps to ensure that funding to recruit for an electronic engineer will be available at the beginning of the next fiscal year.

## **COMMENTARY**

### **INSPECTION COVERAGE AND FOCUS**

We recognize that a strong inspection presence can help minimize public safety risks through its deterrent effect.



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*The Branch has taken steps both to increase its inspection resources and to enhance its ability to set inspection priorities based on risk assessment.*

*As noted earlier in this response, the Elevating Devices Branch began an internal training program for inspectors in 1990. This will provide the Branch with a total of nine additional inspectors by 1994 and will result in improved inspection coverage. The Branch will also be using the four inspectors currently assigned to inspection of amusement devices and construction hoists to conduct additional elevating device inspections on a part-time basis.*

*The Branch is also currently implementing the INDEX system to help address the issue of inspection focus. The risk-management tool will allow the Branch to establish a periodic inspection cycle for each device based on its technical specifications, and its inspection and maintenance history. The Branch can then target its inspection resources at those devices requiring more frequent inspection.*

*In addition to the steps outlined above, the Branch is assessing alternate delivery mechanisms as a means of continuing to improve its inspection operations.*

## **ENFORCEMENT**

*The Elevating Devices Act places responsibility for compliance with owners and maintenance contractors and, as noted earlier in this response, the Branch has taken appropriate action to deal with specific concerns in this regard.*

*In addition to the specific disciplinary actions which the Branch has undertaken to ensure compliance, it is also dealing with the issue of contractor performance by addressing the training needs of the elevator mechanics employed in the industry.*

*The quality of training of elevator mechanics employed by contractors has been of concern to both Branch management and industry. The need for formalized training programs has also been identified in coroners' recommendations. Branch staff are currently working with the Ministries of Skills Development and Labour, as well as with industry and labour representatives, to develop a formal certification program for mechanics. By ensuring that all contractor staff have met the same training standards, this program will improve compliance and public safety.*

## **RESOURCE EXPERTISE**

*As noted earlier, the Branch recognizes the growing need for electronic expertise and has made resources available to hire an electronic engineer at the beginning of the next fiscal year.*



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## MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS:

# Real Property Registration

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### 3.05

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The Ministry of Consumer and Commercial Relations spent \$40 million in the 1991/92 fiscal year for the Real Property Registration Activity to provide for the registration of interests in real property and to make registered information available to the public. Fee revenue for the same period amounted to over \$54 million.

Our objective was to assess whether the registration process ensures an accurate, reliable, secure, and cost-effective land registration system.

We conducted audit work at head office, held discussions with regional managers, and visited 16 registry offices for detailed testing. The computerized land registration system (POLARIS) was not included in the scope of our audit.

## CONCLUSION AND FINDINGS

We concluded that overall, the registration process was satisfactory in ensuring an accurate, reliable, secure, and cost-effective land registration system, although improvements could be implemented in security and cost effectiveness.

### INFORMATION SECURITY

- Nine of eleven land titles offices visited had backlog problems in microfilming of documents.
- Back-up master microfilm records were stored in an off-site environment that did not meet international standards for

the long-term storage and preservation of microfilm.

### COST EFFECTIVENESS

- The registry offices' writs of execution system duplicated a system maintained by the Ministry of the Attorney General. According to a joint task force report, the consolidation of the two systems could save about \$380,000 annually.
- Revision of the filing requirements for certain complex registrations would reduce staff time spent pre-approving documents.
- Although self-service systems were more efficient, only 8 of 16 offices visited offered a complete self-serve option for users, in part because of a shortage of high quality reader printers.

### OTHER MATTER

The integration and closing of registry offices will have a number of benefits, including operating savings of up to \$1 million annually. An additional \$8 million in capital cost savings was projected based on construction proposals rather than on committed funds. However, it is unlikely that approval for construction would have been obtained for many of these projects.

## BACKGROUND

The Real Property Registration Activity's primary objective is to enable the owner-

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ship of, and encumbrances affecting, real property to be preserved and readily determined, and to ensure instrument security, availability and legality. The program is operated through 6 regional and 55 land registry offices.

Each office operates under one or both of the two land registration systems in Ontario: the registry system and the land titles system, which are governed by the *Registry Act* and the *Land Titles Act*, respectively.

In both systems, the government records, files, and makes available to the public registered documents. Under the titles system, the government additionally provides a guarantee on title. A \$1 million Land Titles Assurance Fund provides compensation to individuals who suffer financially due to fraud or error involving document registration.

We visited a mixture of small, medium and larger registry offices in each region, representing half of the Branch's registrations. In addition, we extended our coverage through questionnaires given to all regional managers, land registrars, and a selection of registry staff.

Over the last several years the Ministry has been developing a computerized land registration system known as POLARIS. In 1991 the Province formed a partnership with a private sector consortium, Teranet Land Information Services Inc., to implement POLARIS in all registry offices over the next several years. This initiative was outside the scope of our audit.

## COMMENTARY

### REGISTRATION PROCESS

Land registry offices register, store, index, and preserve documents relating to the ownership of real property. These docu-

ments include deeds or land transfers, mortgages or charges, mortgage assignments or discharges, plans of subdivision, and construction liens.

Registry staff perform an initial review of documents submitted for registration to ensure that they relate to land and have been completed properly. Once accepted for registration, the documents are abstracted, which is a process of summarizing key instrument details in books known as abstract indexes or parcel registers. For land titles, register entries are then signed by senior staff, making registration effective. All documents are microfilmed shortly after registration, and copies of these films are maintained both on- and off-site.

### EXAMINATION OF REGISTRATION PROCESS

We examined 420 registrations, 30 each at 14 of the offices visited. Our tests included ensuring completeness of documents, correct abstracting, collection of appropriate fees, and the availability of both on- and off-site microfilm copies.

We were satisfied with the accuracy and reliability of the registration process, as there were no problems noted for almost 99 per cent of the transactions which we tested.

### INFORMATION SECURITY

Ensuring that registered information is both accessible and secure is critical to the delivery of registry services.

In recognition of the need to prevent loss of information and the risks associated with its public use, land registry offices follow a number of security procedures, such as microfilming books and documents, sign-out procedures for clients requesting books and documents, and off-site storage of microfilmed records.

While we were satisfied overall with controls over information security, we found that certain procedures could be improved.

## BACKLOGS OF DOCUMENTS TO BE MICROFILMED

A risk of information loss existed with registered documents awaiting microfilming. Most offices manually microfilm such documents, although for the past few years an automated microfilm machine has been used successfully in the Toronto office.

Until it is microfilmed, there is no backup copy of a document. The following incidents at offices visited illustrate the importance of timely microfilming:

- in one office, three documents were lost prior to microfilming. The solicitors involved had to be contacted to obtain replacement copies; and
- in another office, staff stopped providing documents which had not yet been microfilmed to clients after suspecting that one such document had been altered. They now provide photocopies only of unmicrofilmed documents. However, this was the only office to adopt this practice.

One regional manager recently adopted microfilming backlog standards of less than five days volume for registry documents and 12 days volume for titles documents. Using these as reasonable benchmarks province-wide during our 16 office visits, we found that:

- all five registry-only offices rarely had backlog problems; and
- nine of the eleven offices with land titles operations typically had backlog problems. These ranged from two and one-half weeks' activity to three months' activity, or from a few hundred documents in smaller offices to several thousand in larger offices.

All backlogs observed were in land titles offices, rather than registry operations.

This suggests that most backlogs were caused by problem documents rather than staff shortages. Because of the title guarantee, documents accepted for registration in titles must be more thoroughly scrutinized at subsequent abstracting and signing stages, which often identifies deficient documents that need client correction. Since documents were microfilmed in numerical order to facilitate searching on microfilm rolls, documents awaiting correction hold up the microfilming process.

We recommended that:

- management clarify Branch standards for acceptable backlogs;
- offices deal with unacceptable backlogs by a combination of cancelling documents which had not been corrected by a client after reasonable notice; skipping a small number of problem documents, microfilming the backlog, then referencing the skipped documents to later microfilm rolls; and adjusting office workload;
- photocopies be provided to clients who request unmicrofilmed documents. This eliminates any risk of loss or alteration, and is more efficient than the current practice of having staff watch these clients until the documents are returned; and
- additional automated microfilming machines be acquired for offices where volumes warrant. As a recent Branch business case indicated, the Brampton and Newmarket offices would be logical candidates for these machines.

## MICROFILM STORAGE CONDITIONS

In addition to on-site storage, master microfilm copies of registered documents, abstract indexes and parcel registers are stored off-site at the Ministry of Government Services Records Centre. Currently there are some 163,000 films stored at the facility.



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Microfilm copies had always been important to the Branch as security against lost books and documents. However, the importance of good quality microfilm is increasing because of Branch initiatives to improve efficiency and save storage space.

- Many offices now destroy original documents and rely solely on microfilm.
- Even those offices primarily on a document system are disposing of older records. All pre-1867 documents have been turned over to the Ontario Archives. All 1867-1947 documents are slated for destruction or transfer to local archival repositories.

Management had long recognized that the Ministry of Government Services storage environment does not meet international standards for the long-term storage and preservation of microfilm. A number of groups interested in the preservation of land ownership records, particularly older records, have also expressed concerns. These include heritage groups, historical, genealogical and archaeological societies, and archivists. For example:

- 'Redox blotches', blemishes caused by a virus that spreads if unchecked, were identified in microfilm masters over ten years ago;
- in 1989 a genealogical consultant found deterioration in 13 of 35 randomly selected master microfilm rolls; and
- a 1991 internal committee report indicated that "large collections" of masters examined over the years were damaged due to such problems as major scratches, crushed and decomposing film containers, poor image quality, and chemical stains.

However, no corrective action had been taken. Contributing to the problem were such things as storage of films using elastic bands and cardboard boxes, storage in an environment dominated by aging paper products chemically harmful to film, and

the lack of effective control over temperature and humidity.

The Branch intends to use hermetically sealed pouches for all of these films and to use a chemical solution to stop further Redox blotch spreading. We understood that the necessary equipment could be obtained for \$20,000.

Our testing of microfilm masters indicated that there had been no significant loss of information from the master microfilms. Nevertheless, we recommended that the 1867-1947 documents planned for disposal should be retained until the master microfilm records have been preserved.

## **COST EFFECTIVENESS**

### **WRITS OF EXECUTION**

Writs of execution are documents filed to enforce a court judgment or order by obtaining possession of a debtor's property. All writs are originally filed in sheriffs' offices, which are administered by the Ministry of the Attorney General. This Ministry has developed an improved, automated writs system and plans to install the system province-wide.

Under current legislation, land registered under the land titles system is bound only by those writs of execution forwarded by a sheriff, at the request of plaintiffs or their solicitors, to a land titles registry office. These offices do not register transfers until a search has been made from their files for outstanding writs against the transferor. At the 32 offices performing land titles registration:

- about one million searches are done annually on a database of 261,000 writs;
- approximately 15 person-years are devoted to operating the systems; and
- there are 23 computerized systems and 9 manual ones.



## Consolidation of Writs System

In March 1990, a joint task force (Ministries of the Attorney General and Consumer and Commercial Relations) reviewed the writs system to identify ways of reducing duplication and costs and improving client service. Their July 1990 report indicated that consolidating all writ services at the Ministry of the Attorney General would prove cost effective, with possible savings of about \$380,000 annually to the Ministry of Consumer and Commercial Relations.

However, there had been no consolidations since the task force report. In addition to Toronto and London, where consolidation efforts were implemented prior to the report, we visited nine other registry offices providing land titles registration and found that:

- for five of the nine offices, the sheriff's office was in the same building, and for the remaining four it was within a short distance. Thus, consolidation would have provided little or no inconvenience to users who needed to search writs. Users were already conducting searches at the sheriff's office for transfers in the registry system;
- in all nine offices, staff manually entered each new, amended or cancelled writ into their automated databases, duplicating the work done at the sheriff's office. There was no network or sharing of software between the sheriff and the land registry office; and
- land registry offices varied in how they handled expiries, renewals and amendments of writs, and the level of detail contained in writ files.

Consolidation would have provided a standardized practice for processing writs. The risk of error would be reduced because the same information would be handled and entered into the system less often.

We were informed that management was working with the Ministry of the Attorney General to consolidate further offices.

## PRE-APPROVALS

A number of complex transactions have unique documentation requirements. These include transfers under power of sale, foreclosures, estate and bankruptcy conveyances, and survivorship applications. Documents required for these transactions can be submitted to land registry offices prior to the date of registration to ensure that they are complete and proper. This pre-approval process benefits both the land registry office and the client by enabling a smooth registration on the actual transaction date.

### Reduction of Documentation

The pre-approval process, while intended to facilitate registration, may be discouraging diligent document preparation because clients are aware that registry staff will identify any deficiencies at no cost to them. Most high volume offices must commit a significant portion of staff time to handling pre-approvals.

A 1989 Branch report recommended the elimination of much of the documentation currently required for most complex registrations, thereby eliminating the need for them to be pre-approved. In place of the documentation currently filed, a statement of compliance with all relevant legal requirements would be filed by the solicitor involved.

We felt that the approach outlined in that report would improve efficiency and ensure that the legal community takes appropriate responsibility when registering these transactions. The changes would also be consistent with the streamlining of the registration process achieved through the passing of the *Land Registration Reform Act* in 1984.

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We were advised that negotiations with the Canadian Bar Association were taking place on this matter.

## **DOCUMENT RETRIEVAL AND VIEWING**

We found that land registry offices varied as to whether they used staff to retrieve documents or a system in which micro-filmed documents were available to clients on a self-serve basis.

Only 8 of the 16 offices visited offered a complete self-service option. This is the most cost-efficient method of making registered documents available to users. The self-serve feature may also reduce the number of documents clients currently request to view. Documents being made available only on microfilm significantly reduces the space requirements for the offices.

The use of self-serve microfilm systems should not be limited to registrations under land titles. The Newmarket office was the only office which had all registry documents on self-serve microfilm, and its success demonstrates that clients can manage under this system if adequate equipment is provided.

### **Reader Printers**

One constraint on the ability of registry offices to provide a self-service option is the quality and quantity of reader printers.

Land registry offices use either dry silver or bond paper microfilm reader printer machines. The older dry silver models are inferior to the bond paper machines in that:

- they require more servicing;
- paper costs are about 19 times greater; and
- copies produced are of much poorer quality with respect to clarity and durability.

Of 61 reader printers available to clients in the offices we visited, 22 were dry silver models. Considering the high cost of paper and servicing these dry silver models, we recommended that management consider the feasibility of replacing them. In the interim, the bond paper machines could be allocated among all offices so that as many dry silver models as possible could be used for viewing only.

We also suggested that criteria for new purchases should stress the quality and warranty of equipment, especially given that many remote locations do not have local servicing available, making maintenance more costly and less timely. Responses to the staff questionnaire indicated dissatisfaction with the quantity and quality of equipment purchased for the Branch.

## **OTHER MATTER**

### **OFFICE INTEGRATIONS**

In 1991 the Ministry initiated a program to eliminate 14 of its 65 land registry offices by integrating them with existing offices. Twelve were to be closed, while the remaining two were large offices that would be merged with adjoining offices. The Ministry later dropped plans to close four offices, which were in similar legal positions, after losing a court case on the legality of one of these proposed closures. The remaining ten integrations were completed as scheduled.

These integrations have a number of benefits. With the exception of the Minden and Almonte offices, remaining offices are now located in the same community as the local sheriff, a convenience for registry clients who must perform writ searches. The integrations also more closely tie the areas served by registry offices to county jurisdictions, and the cost of administering the registry program will be reduced.

## SAVINGS

In its May 7, 1991 public announcement of the integrations, the Ministry stated: "Ontario taxpayers will save in the neighbourhood of \$1 million a year. Also, proposals for capital-cost improvements totalling \$8 million over the next few years will be eliminated."

The closures have been controversial in several of the counties involved. Opponents to the plan have questioned the validity of these purported savings. The Legislative Standing Committee on General Government, which held public hearings on the closures in July of 1991, was also concerned about the estimated cost savings.

We found the \$1 million estimate of annual savings to be adequately supported and based on reasonable assumptions. It consisted of an accumulation of detailed calculations of salary, accommodation, and operating expenditure savings based on actual cost experiences in the relevant offices.

Of course, the cancellation of the four closures will reduce the actual savings.

The support for the \$8 million capital cost savings was based on projections, Ministry proposals and most recent precedent rather than on committed funds. However, it is unlikely that approval for construction would have been obtained for many of these proposals, particularly given the current environment of restraint. To illustrate:

- the \$8 million figure was derived by using the \$1 million approximate cost for the recent construction of the Almonte registry office, and assuming these same costs would have been incurred by replacing all 8 of the 14 registry offices that were over 100 years old; and
- three of the four offices now remaining open are over 100 years old, and thus were part of the \$8 million calculation. At the time of our audit, there were no plans to update the Ministry's 1992/93 capital project priority listing to include these offices. Rather, minor renovations totalling \$38,000 were planned to upgrade these offices to an appropriate level for the foreseeable future.



## RESPONSE

The Acting Deputy Minister of Consumer and Commercial Relations responded to our report on August 25:

*We are pleased with the contents of the audit because it confirms that the registration process satisfactorily ensures an accurate, reliable, secure and cost-effective land registration system.*

## INFORMATION SECURITY

### BACKLOGS OF DOCUMENTS TO BE MICROFILMED

- *The Branch has established backlog standards for all Land Registry Offices (LROs) through the customer services measures. In addition, they will be included in all managers' performance reviews.*
- *LROs do manage with backlogs as described in the recommendations.*



- *Providing photocopies of unmicrofilmed documents is done in some LROs. However, in some LROs it is less workload when clients can review the documents at or behind the counter with a staff member in attendance.*
- *Automated microfilming machines for some large offices have been considered. The Branch will finalize its approach once a decision on Teranet's automation plans is made.*

## **MICROFILM STORAGE CONDITIONS**

- *The Branch has sought the advice and input of the Archives of Ontario concerning the redox contamination of microfilm now in storage.*
- *The Archives has advised us that chemical treatment of contaminated film is not viable since the process is still in an experimental stage. If the Branch decides to pursue this alternative, we have been advised that additional processing equipment would be required which in turn requires two technicians to operate it. Moreover, this chemical treatment is likely to have significant health and safety issues that would have to be addressed. The Branch will continue to pursue this issue and possible solutions to this problem with the Archives.*
- *The nitrogen foil packaging appears to be the viable solution for newly processed film. The Branch will expend the \$20,000 in order to purchase the machine.*
- *The 1867-1947 documents are being transferred to the Provincial Archives and are not being destroyed.*

## **COST EFFECTIVENESS**

### **WRITS OF EXECUTION**

#### **Consolidation of Writs System**

*The legislation requires that both the Sheriff's and the Land Titles offices maintain and search writs. The Branch has been working with the Ministry of the Attorney General to consolidate this function. A memorandum of understanding has been finalized. This will eventually eliminate the duplication of services.*

### **PRE-APPROVALS**

#### **Reduction of Documentation**

*A standardized pre-approval policy has been developed and has been circulated to all land registry offices. This policy identifies the types of documents and information that are appropriate for pre-approval. It also includes standardized pre-approval forms which will ensure efficient registration of the pre-approved documents when they are subsequently submitted for registration. The policy also enables clients to submit documents remotely via facsimile machines.*

*As noted, we are working with the Canadian Bar Association to introduce streamlined documentation.*

### **DOCUMENT RETRIEVAL AND VIEWING**

*We agree with the suggestion that we replace reader printers that use dry silver paper. The Branch has been acquiring bond paper type reader printers as funding permits and older models of dry silver paper reader printers are now being used in small volume offices or as viewers. We will continue to emphasize quality of and need for warranties for equipment we purchase. The high cost of maintenance is of great concern to the Branch.*



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*We also agree that we need to acquire additional reader printers to extend self service to offices where it is not available and to expand it where it is. The Branch is currently preparing an equipment replacement program. This study will identify the ideal equipment configuration for offices of varying sizes, a reasonable life expectancy for the equipment and a replacement/acquisition schedule.*

*We agree with the comments concerning self-service for document retrieval and have implemented it in both Registry and Land Titles offices where possible. In addition, an equipment replacement program is currently being developed.*

## OTHER MATTER

### 3.05

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#### OFFICE INTEGRATIONS

- *We agree that the \$8 million dollar capital cost savings were based on projections, Ministry proposals and most recent precedents. The capital savings mentioned were indirect savings and cost avoidance measures only, based on proposals. This was made clear in the original announcement.*
- *The integration of the land registry offices was successful in eliminating the need for these proposals and in achieving the announced projected benefits.*
- *It is correct that the \$8 million figure was based on the cost of the recent construction of the Almonte Land Registry Office which opened early in the summer of 1990. Almonte served as the best costing precedent as it is similar in size and configuration to the other eight offices.*

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## MINISTRY OF THE ENVIRONMENT:

# Surface Water Quality Improvement

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The Ministry of the Environment is responsible for the quality of water in Ontario's inland lakes, rivers and streams as well as the water near the Ontario shoreline of the Great Lakes. To improve water quality by preventing toxic substances from entering these bodies of water and to clean up polluted areas, the Ministry initiated two programs and established a Watershed Management Section in its Water Resources Branch in the 1986/87 fiscal year.

Our objective was to assess the progress of these three initiatives:

- The Municipal Industrial Strategy for Abatement (MISA), to control toxic discharges into sewers and natural waterways by industry and sewage treatment plants;
- Watershed Management Plans, to control pollution from urban and agricultural run-off into natural waterways; and
- Remedial Action Plans (RAPs), to clean up certain highly polluted areas of the Great Lakes as required by international and federal/provincial agreements.

Our audit included reviews of the MISA regulation development process and of various relevant documents and studies. We also interviewed conservation authorities, municipalities, and staff from the Ministries of the Environment, Natural Resources, Municipal Affairs, and Agriculture and Food. Our audit of RAPs included on-site interviews conducted at three Canadian RAP sites.

## CONCLUSIONS AND FINDINGS

The development of all three initiatives has been slow for a variety of reasons. As of June 1992, MISA and RAPs were well behind schedule and no watershed management plans had been implemented.

These reasons included:

- the technical complexity of the problems to be solved;
- the high costs of possible solutions;
- the delay inherent in trying to reach a consensus between such diverse groups as industry, municipalities, farmers and environmentalists; and
- a lack of co-ordination between the three programs.

## MUNICIPAL INDUSTRIAL STRATEGY FOR ABATEMENT (MISA)

- The 1986 MISA White Paper projected that by 1989, regulations would be in place to control the discharge of industrial effluents. As of June 1992, no Regulations were in place.

Contributing significantly to this delay were: the construction of an extensive database of information on effluent quality; a poorly controlled consultation process; and a shift midway through developing regulations from seeking "end of pipe solutions" to preventing pollution at its source.

- With effluents from 30,000 commercial and industrial businesses and four million households to treat, discharges from municipal sewage systems present the most serious pollution control issue. While the Ministry has proposed a municipal model sewer use by-law to control the discharge of toxic substances into sewer systems, the associated costs and need for consistent enforcement among all municipalities will pose a significant challenge.
- A Ministry study estimated the cost of upgrading sewage treatment plants to minimize harmful discharges to be \$3 billion. At least half the municipalities involved cannot afford to pay their share for these improvements, but the Ministry has neither prioritized the improvements nor made plans to assist municipalities in paying for them.

### WATERSHED MANAGEMENT PLANS

- A draft report containing guidelines to protect watershed areas from harmful development was issued in January 1992. However, the Ministry had not addressed the key issues of how to finance the environmental and land use studies the guidelines require or how to resolve conflicts over land use which will inevitably occur among watershed users.
- Nitrates and phosphorous from agricultural run-off pose a significant pollution problem. A program to Clean Up Rural Beaches (CURB) was established, but the Ministry had no programs designed specifically to improve other bodies of water in rural areas.

### REMEDIAL ACTION PLANS (RAPs)

- Most RAP Plans were well behind schedule. A major reason for this delay is that the *Canada-Ontario Agreement* does not specify exactly what Ontario's role in this process is and, conse-

quently, the Ministry has made no clear statement of priorities nor any long-term financial commitment to the RAP program.

## BACKGROUND

The Ministry's current guidelines for surface water quality have been in place since 1984. Water quality is continuously monitored for a minimum of 26 substances and conditions through 726 water sampling stations on 400 bodies of water throughout the province. Over the last ten years, while some aspects of water quality have shown improvement, others have deteriorated. At the time of our audit, Ministry data showed that:

- over 50 per cent of southern Ontario monitoring stations reported nitrate and phosphorous concentrations exceeding guidelines despite efforts under the Canada Phosphorous Management Plan; and
- monitoring stations also frequently reported unacceptable levels of heavy metals such as copper, iron and highly toxic organic substances such as PCBs.

In addition, data collected by industries and verified by the Ministry indicated that:

- several industries continued to discharge contaminants at rates that were sometimes hundreds of times higher than provincial guidelines allow; and
- persistent toxic substances (dangerous materials that accumulate in the environment) continued to appear in effluents despite persuasive evidence that these substances are too dangerous to the biosphere and to humans to permit their release in any quantity.

The job of protecting and improving water quality is complex. Everyone has both a stake in it and an impact on it. Although the primary responsibility for water quality

lies with the Ministry, the responsibility for controlling pollutants before they reach the water is shared with other provincial ministries, municipalities, private corporations and individual citizens. The activities of all these stakeholders fall under the jurisdiction of numerous pieces of legislation which makes the co-ordination of water quality improvement by the Ministry all the more difficult.

## COMMENTARY

### MISA

Currently, all industries and sewage treatment plants must receive approval from the Ministry before they begin discharging effluents into surface water. In effect, each plant is regulated on an "as needed" basis. This system has resulted in a complex patchwork of regulations which are difficult to monitor and which can vary even between plants that use similar technologies.

The Municipal Industrial Strategy for Abatement (MISA) was introduced in a White Paper in 1986 in an attempt to remedy this situation. Its primary goal is to prevent toxic substances from municipal and industrial effluents from entering Ontario's surface water by formulating limit regulations to be enacted under the *Environmental Protection Act*. These regulations would apply uniformly throughout specific industrial sectors. The Ministry, in consultation with various stakeholders and interest groups, was to develop these regulations by 1989.

Both industrial plants and sewage treatment facilities discharge effluents directly into surface water. However, since industrial plants are owned by companies whereas most major sewage treatment

plants are owned and operated by municipalities, the Ministry divided the regulation development process into two distinct components. MISA-Industrial was to develop regulations for industries which discharge effluents directly into natural waterways. MISA-Municipal was to develop regulations for sewage treatment plants and for industries discharging effluents into municipal sewers.

At the time of our audit, approximately 250 Ministry staff were working on MISA projects and, as of March 31, 1992, MISA had cost approximately \$60 million.

### MISA-INDUSTRIAL

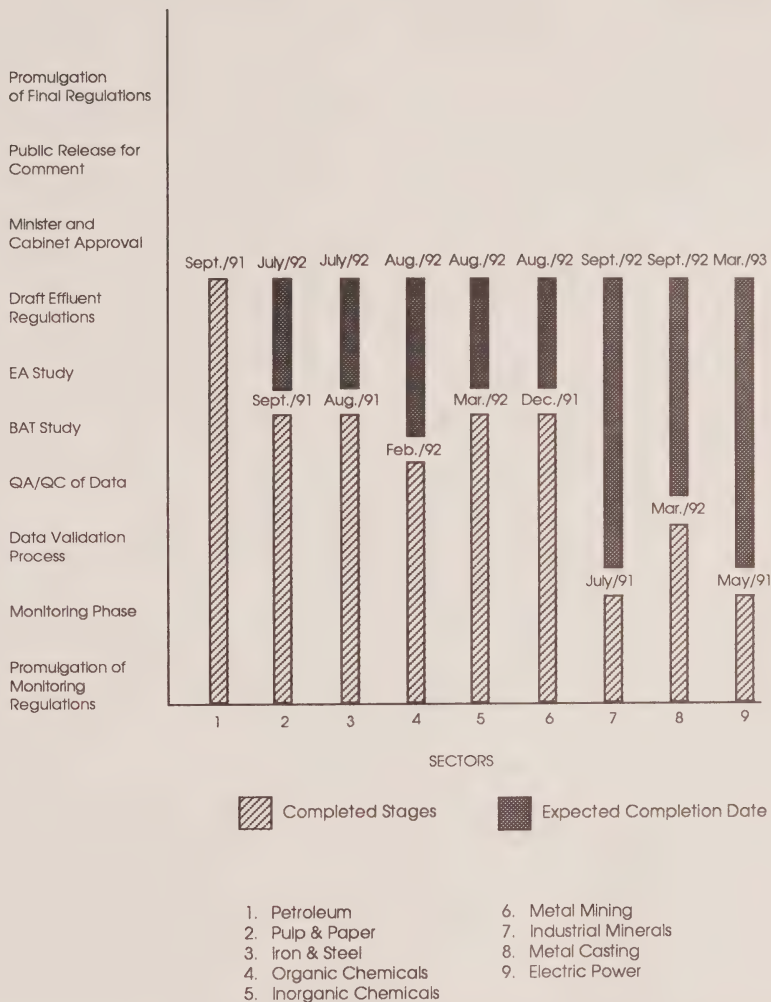
There are approximately 300 direct-dischargers in Ontario. Of those, 200 belong to one of the nine industrial sectors listed below, which the Ministry initially targeted for effluent control (the remaining 100 belong to other, smaller industrial sectors which the Ministry plans to address later):

- petroleum;
- electric power generation;
- mining;
- metal casting;
- industrial minerals;
- organic chemicals;
- inorganic chemicals;
- pulp and paper; and
- iron and steel.

Limit regulations would require these plants to meet standards by using the best available technology which is economically achievable. While some progress had been made (see chart next page), no limit regulations are yet in place. The Ministry estimated that draft regulations would be ready in 1993 at the earliest. After those regulations have become law, industry will have a grace period of three years before compliance becomes mandatory. It should be noted, however, that some industries have already made voluntary improvements in effluent monitoring and control.



## MISA Scheduling of Industrial Sectors as at June 30, 1992



### Extensive Database

To develop limit regulations, the Ministry developed an elaborate seven-step process of information gathering, analysis and consultation. The Ministry's first step was

to gather information about the substances actually being discharged. To do this, the Ministry, in consultation with industry, developed monitoring regulations which required industries in each sector, at their own expense, to collect samples of their

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effluents and analyze them for the presence of approximately 150 substances.

Samples were collected and analyzed for a year in order to detect seasonal changes. This testing resulted in approximately two million separate results which were transmitted to the Ministry and entered into a database. Most sample analyses from each sector had been received by August 1991. The Ministry then spent an additional six to eight months validating the data for accuracy and reliability.

This undertaking was both technically and administratively complex. Given its requirements for planning, training, and problem solving, in addition to the sheer volume of data to be generated and recorded, it is not surprising that the first set of monitoring regulations came into effect two years behind schedule. The final set came into effect on August 1, 1990, well after the limit regulations should have been in place.

The Ministry now has a unique and extensive database on effluent qualities in Ontario. Currently, it is probably the most comprehensive and up-to-date database of its kind in North America. However, there are some limitations to its usefulness for the development of regulations.

So far, the data collected have generally served to confirm what was previously known or assumed about the effluents of the various industrial sectors. Because industries know what materials and processes they use, they already had a well-informed idea of what toxic substances were in their effluents without testing. Further, the Ministry could have relied on information about industrial effluents already gathered by other agencies such as the US Environmental Protection Agency.

Of the 150 or so substances for which effluents were tested, only 5 to 15 of the most dangerous of these will ultimately be regulated, and their identities were gener-

ally known prior to testing. If information was required to determine the quantities or frequencies of their presence in effluents, that information could have been obtained by testing only for those substances, which would have expedited the whole process.

In addition, the link between the information in the database and the eventual limit regulations is weakened by the necessity for those regulations to be compatible with the best available technology (BAT) which is economically feasible. Since the regulations can only require what is technically possible, it might have been more efficient to have used the determination of BAT as a starting point. For most sectors, waiting to determine BAT until data collection was completed has further delayed the whole process. As well, the effluent database may soon become irrelevant for the purposes of setting limit regulations if plans are not made to keep it current.

Finally, the MISA Advisory Committee, a committee of outside experts which advises the Minister on MISA matters, recommended that limit regulations be harmonized with those of neighbouring jurisdictions. In early 1992, the federal government regulated the effluents of pulp and paper plants. If Ontario enacts regulations more stringent than the federal ones, these will be out of "harmony" with those in neighbouring provinces. On the other hand, if Ontario patterns its regulations after those of the federal government, effluent testing and analysis for that sector will have been unnecessary.

The same situation also applies in the case of US regulations, again calling into question the need for such extensive research. In fact, for MISA-Municipal, the Ministry decided to forego the construction of a similar database and to adapt regulations originally formulated in the US instead.

## Managing the Consultation Process

It was necessary for the Ministry to consult with industry, environmental groups and other levels of government to formulate effective and realistic limit regulations. The consultative process was to ensure industry's co-operation and its future compliance with limit regulations. The Ministry also hoped to avoid the costly litigation that could result if any industrial sectors felt the regulations were unfair.

However, the Ministry initially underestimated the complexity of the consultation process. As well, a strong emphasis on achieving consensus both within and outside the Ministry added considerably to the time required. Our interviews with Ministry officials revealed that almost all decisions, even minor ones, were resolved in committee meetings. In some instances the consultative process foundered where consensus could not be reached. Because so many parties were involved in various consultations, much time was inevitably required to cancel and reschedule meetings to allow key players to attend. In some cases meetings were held despite the fact that industry participants were in agreement with the Ministry and felt that the meetings were not necessary.

Considering the length of time already invested in consultation, it is doubtful whether any further discussion in areas where there is strong dissension will be useful. Future discussions, particularly those about the costs of implementing limit regulations, are likely to be even more difficult than the ones held to date. The Ministry must be willing to make decisions where complete unanimity is lacking.

### Shift in Emphasis

In 1990, the Ministry endorsed the concepts of zero discharge of persistent toxic substances, pollution prevention and a comprehensive approach to environmental management. These concepts stemmed

from the belief that technology based on an "end of pipe" treatment of toxic effluents would not be sufficient to achieve the original MISA goal of virtual elimination of persistent toxic substances from Ontario's waterways.

To accommodate this new direction, the Ministry must shift away from a technology-driven program to treat toxic substances after they are generated and move toward one that encourages dischargers to find alternative production processes and chemicals, thereby preventing the formation and discharge of dangerous substances during the production process.

It is not currently evident how these two approaches will be blended. The new approach may make some of the work already done toward developing limit regulations unnecessary. This change in approach has required additional consultation and has significantly delayed the regulation development process.

## MISA-MUNICIPAL

There are approximately 30,000 commercial and industrial establishments discharging effluents into municipal sewer systems. Of these, it is estimated that 12,000 are discharging some form of toxic substance into the sewers. These substances together with domestic waste from over four million households make the effluent from sewage treatment plants the most serious polluter of surface water in the province.

The MISA strategy for municipal sewage treatment plants is twofold:

- to prevent toxic contaminants from being discharged into municipal sewers; and
- to upgrade the sewage treatment plants where necessary, to ensure that their effluents are free from toxic materials.

The MISA White Paper stated in a general way that these goals would be achieved by 1989, but no specific schedules were ever



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set for the municipal sector. Instead, the whole program has become mired in difficulties which the Ministry has not yet devised ways of overcoming.

### **Regulating Sewer Use**

Most municipalities have sewer use by-laws to control waste discharges into their sewer systems, but these by-laws tend to be weak and unenforced. There are no provincial regulations to ensure that municipalities enforce their by-laws. This is in contrast to the situation in the United States, where the federal authority, the Environmental Protection Agency, is in a position to charge a municipality if it does not follow its guidelines.

The Ministry originally intended to use the same strategy it was using with MISA-Industrial to formulate regulations controlling substances discharged into the sewer system. After consultation with municipalities, it would introduce monitoring regulations requiring municipalities to test and analyze sewer plant effluents. Based on that information and with further consultation, a provincial sewer use regulation for all municipalities would be formulated and enacted.

Consultation and communication between the Ministry and municipalities was to have been a key element in this process. However, our interviews with stakeholders revealed that this ran into difficulties at the outset with uncertainties about how committees should be composed and who would have authority to make decisions. After the initial contacts, there were very few meetings between the Ministry and municipalities and the whole process stalled.

### *Model Sewer Use By-law and Demonstration Project*

Based on the recommendations from various stakeholders, the Ministry halted the development of monitoring regulations in

1989 because of its estimated cost of \$300 to \$500 million. Instead, the Ministry proposed that municipalities voluntarily adopt a model sewer use by-law until provincial regulations were in place. This proposed by-law was based on a US model and specified limits for a variety of toxic substances discharged into sanitary as well as storm sewers. It was expected that municipalities would also develop local effluent limits based on provincial water quality guidelines, taking into consideration the best available technology that was cost effective for treating effluents. These local limits would have to be at least as stringent as those proposed in the Ministry's model by-law.

In 1989, the Ministry recruited five municipalities to conduct demonstration projects in an effort to convince other municipalities that adoption of the model by-law was feasible.

As of June 1992, 44 of approximately 300 municipalities large enough to make implementation of the model by-law practical had adopted it and another 20 were in the process of doing so. None had developed local limits for substances. There was no timetable for the adoption of the model by-law by the rest of the municipalities.

### *Impediments to Implementation*

One major impediment to the adoption of the proposed sewer use by-law is the issue of cost sharing between the Ministry and municipalities. According to the Ministry, the cost to municipalities for the enforcement program alone would be about \$50 million for the first year and \$40 million per year thereafter. Some municipalities believe it would be even more.

In addition to the costs, smaller municipalities fear they will be unable to recruit and train an adequate number of technically qualified staff. Some fear they may not have access to appropriate laboratory facilities. So far, the Ministry has taken few



steps to address these problems, but until they are dealt with, it is unlikely that municipalities will support the Ministry's efforts to introduce a regulation.

Also, municipalities may be reluctant to enforce a by-law because they believe that if they do, affected industries and businesses would simply move to other, less strict jurisdictions. For example, one major industrial centre has never laid charges under its by-law despite repeated violations. We understand that the proposed sewer use regulations would permit the Ministry to charge municipalities that failed to implement an enforcement program.

Another impediment is the lack of adequate alternatives for disposing of toxic waste. Realistically, many small industrial plants will not be in a position to treat their waste on site and will need proper disposal facilities.

According to the Minister's MISA Advisory Committee, without additional waste disposal facilities for hazardous substances, it will be difficult to achieve the goal of virtual elimination of toxic substances from surface water. In Ontario there is currently only one major facility where toxic waste can be effectively treated, and it is now operating near capacity. The construction of the Ontario Waste Management Corporation's proposed facility is still some time off.

Despite these difficulties, it is important that regulations controlling municipal discharges be in place by the time MISA Industrial regulations become enforceable. Otherwise, it is possible that some smaller industrial plants could decide to discharge their effluents into sewers rather than directly into surface water to avoid industrial regulations.

### Upgrading Sewage Treatment Plants

In 1990, 25 per cent of sewage treatment plants did not comply with provincial guidelines for one or more substances such as phosphorus, suspended solids and biological oxygen demand. In 1987 a study indicated that nearly half the sewage plants in the province did not meet the standards espoused by the US Environmental Protection Agency. No major improvements have been undertaken since that time.

Of the 412 sewage treatment plants operating across Ontario, 28 are of the primary treatment type, which are the least effective in treating waste. These 28 plants are also responsible for 40 per cent of all conventional waste discharged by sewage treatment plants. The Ministry believes that upgrading these plants to the secondary stage would have the biggest impact on reducing toxic discharges.

The Ministry estimated the total cost of upgrading all plants (outside of Metropolitan Toronto) to render their effluent non-toxic to be approximately \$3 billion, one third of which would be paid by the Ministry under current funding arrangements with municipalities.

A study conducted by the Ministry of Municipal Affairs in 1988 concluded that almost half of the municipalities could not afford to pay for the upgrading of their sewage treatment plants. Because the Ministry has been unable to determine how to finance and implement such a program, its future remains uncertain.

Given that pollution from sewage treatment plants is believed to be the single largest source of water pollution, progress in reducing or eliminating their toxic effluents is vital to achieving the Ministry's water quality objectives.

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## WATERSHED MANAGEMENT PLANS

Ontario is divided into watershed areas—144 areas drained by a river and its tributaries. Conservation authorities under the Minister of Natural Resources are responsible for protecting water quality in watershed areas, but they have limited authority to enforce protective programs or guidelines.

Land use affects both the type of pollution present in watershed runoffs and the measures necessary to prevent it from entering surface water. Pollutants in runoff from urban areas include oil and grease, heavy metals, man-made toxic substances, nutrients and bacteria. The principal pollutants from agricultural areas are fertilizers, pesticides and manure.

### URBAN WATERSHED MANAGEMENT

It is generally accepted that the emphasis should be on prevention of surface water pollution rather than its remediation, which is often prohibitively expensive. For example, studies have estimated that it could cost \$1 billion each to restore the Don and Humber Rivers in Toronto to a point that would make them safe for swimming.

Unfortunately, land use planning processes have not been adequate to protect the environment and, as a result, some development has caused degradation of water quality, particularly near urban areas. For example:

- Wetland near urban areas is being lost to development. This land is essential for maintaining the quality of water in streams because it is a natural filter for pollutants as well as a habitat for many species of plants and animals, yet there is currently no means to ensure its protection. Since more than 70 per cent of all wetland in southern Ontario has already been lost, primarily to agricul-

ture, it is especially important to preserve what remains.

- Poor storm water management is a common problem in developed areas. Rain water sweeps pollutants such as oil, heavy metals and soil into storm sewers which are then discharged untreated into streams, rivers and lakes. The Ministry issued guidelines in June 1991 to help municipalities improve their storm water management practices and has provided some financial support for studies and measures to control storm water overflow.
- Improper dumping of excavated soil and other materials into lakes, streams and rivers pollutes those waterways and the sediments below. In June, 1992, the Ministry issued guidelines for disposing of such material.

### Sub-watershed Planning Framework

The Ministries of the Environment and Natural Resources, with input from the Ministry of Municipal Affairs, have developed a framework to incorporate environmental guidelines into the land use planning process. In January 1992 a draft technical document entitled *Sub-watershed Planning* was circulated to several interested parties for their consideration.

The document proposed that local conservation authorities oversee the formulation and implementation of sub-watershed plans for areas to be developed. These plans would be based on ecological studies of the areas in question and would contain guidelines to protect the environment during and after development.

### Financing

Generally, the completion of a sub-watershed plan costs from \$100,000 to \$250,000. Financing is essential because without it the studies needed to formulate the plan cannot be done.

The sub-watershed planning framework anticipated that developers would finance the majority of the future studies, but it is unlikely this will happen. The Urban Development Institute has stated: "The development industry will never advance funds of the magnitude involved in sub-watershed planning without having achieved some prior development rights on their lands. The very nature of the sub-watershed study would extend beyond the urban boundary into areas that are not necessarily owned by developers. Who is to pay for the analysis on these lands?"

#### *Resolving Conflict*

Developers, land owners, the public, provincial ministries, conservation authorities and municipalities all have their own goals and objectives for land to be developed and in many instances, these will conflict. Without authority to impose its plan, it is difficult to see how a conservation authority can avoid outcomes like the one illustrated below.

A conservation authority prepared a sub-watershed plan which prohibited the building of major municipal sanitary or storm sewers on wetlands or their buffers. The municipality involved strongly objected, stating "Of primary importance... is the failure of the conservation authority to recognize the competing interest of the municipality in the watershed... In fact, certain areas of the city would be rendered virtually useless for development." The municipality argued that sewers could be constructed in such areas without causing permanent or long-term harm. Subsequently, the municipality appeared to ignore the sub-watershed plan and continued to plan land use as it had in the past.

Currently, the *Planning Act* does not require municipalities to abide by the recommendations of a watershed plan. In the absence of voluntary compliance, the only way that the Ministries of the Environment or Natural Resources can exercise some

authority is by raising objections and forcing a Municipal Board Hearing when an Official Plan comes up for review at the Ministry of Municipal Affairs. This can be a time consuming and costly exercise.

### **RURAL WATERSHED MANAGEMENT**

In many parts of the province concentrations of phosphorus and nitrates in surface water are much higher than the provincial water quality objectives permit. Ministry data shows that although concentrations of phosphorus have declined slightly, the concentrations of nitrates have increased significantly over the last ten years. Present agricultural practices are the cause of this contamination.

The Ministry of Agriculture and Food administers programs to help farmers improve agricultural practices. Participation in these programs is voluntary and farmers who participate are eligible for grants for various projects such as pesticide or manure handling facilities. It is not the responsibility of the Ministry of Agriculture and Food to keep track of the resulting improvement in water quality, if any, although it expects that water quality will improve in the long run.

The only program administered by the Ministry to improve the water quality in rural watershed areas is the Clean Up Rural Beaches (CURB) program initiated in 1986. However, funds were not made available for clean-up plans until 1991, when \$57 million was allocated for the clean-up process over the next ten years. Also, the majority of water bodies polluted by agricultural run-off are not designated as beaches and therefore do not qualify for CURB grants.



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## REMEDIAL ACTION PLANS

The purpose of the Canadian-US International Joint Commission is to resolve environmental problems occurring along the Great Lakes between Canada and the United States. In 1985 the Commission's Water Quality Board identified 42 highly polluted areas ("areas of concern") around the Great Lakes and formally recommended a Remedial Action Plan (RAP) process to clean them up. Of the 42 areas targeted for remediation, 17 are located in Ontario; 12 are in Canadian waters and 5 are along river systems shared with the United States.

In Canada, the federal and Ontario governments work together to meet the obligations of the Great Lakes Water Quality Agreement through a partnership called the *Canada-Ontario Agreement*.

Each area of concern has a RAP team which includes federal, provincial, municipal and other representatives under the direction of a steering committee. The RAP process was designed to encourage input from municipalities, industries, aboriginal peoples, universities and the general public.

### RAP SCHEDULES

RAPs are divided into three stages: in the first stage, the nature and source of the site's pollution is identified; in the second, remedial and regulatory measures are selected; and in the third, the site is monitored to confirm that beneficial use has been restored. At the completion of each stage, the committee is to submit documentation to the International Joint Commission for evaluation and comment.

In the 1988 biennial report of the International Joint Commission, target dates for the submission of RAP reports were set: first stage reports were to be submitted by the end of 1989 and second stage reports by

the end of 1990. As of June 1992, only 13 of the 17 Ontario stage one reports had been submitted, only three within six months of the target date. Of the 13, 11 have been reviewed by the International Joint Commission. Each of those 11 sites can proceed to the second stage of the process, although in each case the Commission suggested areas where the stage one report could be more thorough. Only two RAP teams had reached the point of circulating a draft stage two report for public consultation.

To some extent, these delays can be attributed to the complexity of the RAP process itself. It is difficult and time-consuming to achieve consensus among so many different interest groups. Public participation, though considered vital and strongly supported by RAP committees, has contributed to a slower pace. RAPs for sites shared by Canada and the US must also deal with political and regulatory differences between the two countries.

Nevertheless, it is evident that insufficient direction and support from the Ministry is also a factor in the slowness of RAP progress.

### FEDERAL-PROVINCIAL ROLES

One reason for the Ministry's lack of commitment may be uncertainty about just what its role should be. Although the *Canada-Ontario Agreement* states that provincial and federal governments share responsibility for RAPs, the agreement is unclear as to just how that responsibility is to be divided. In fact, the agreement expired on March 31, 1991 and has not yet been renewed. We were advised that the negotiation process has been difficult on the issue of specific financial responsibility for implementing RAP projects.

The Canadian approach contrasts sharply with the one taken by the United States. There, the RAP process has been given the force of federal law by the *Great Lakes Critical Programs Act* of 1990. That act sets



both a time schedule and a process for developing US RAPs. A federal/state technical steering committee has been established to propose uniform water quality standards for the Great Lakes. A guidance document is expected in 1992; all eight Great Lakes states will then have two years to standardize their regulations. It should be noted, however, that as of June 1992, the progress of US RAPs through the first two stages of the RAP process is similar to that of their Canadian counterparts.

## RAP TEAM CO-ORDINATORS

In most cases the Ministry has assigned relatively junior level staff as RAP co-ordinators. In some cases, co-ordinators are part-time workers.

Junior status, combined with a lack of appropriate training, has forced RAP co-ordinators to learn skills and methods on their own. This independent learning together with a high rate of staff turnover has delayed the RAP process.

## CO-ORDINATION WITH RELATED PROGRAMS

RAPs are site specific and the problems at each RAP site are the result of unique combinations of land use and geography. However, in a more general sense, each site is contaminated by pollutants from sources which are also being addressed by MISA and the watershed management planning process. While there is an obvious need

for co-ordination between RAP teams and MISA and watershed management planning, RAP teams remain ill-informed of developments in these other programs. There are no MISA representatives on RAP teams or public advisory committees to provide useful insight into pertinent issues. Similarly, there is no formal mechanism for communication between RAP teams and personnel involved in watershed management developments.

## LONG-TERM FINANCING

Provincial funds budgeted specifically for the RAP development process have averaged about \$2 million per fiscal year since the program began. Federal funding has been even less. While RAP activities to date have been relatively inexpensive since most RAP teams have only recently completed their stage one reports, future efforts will require significant funding.

The total cost for remedial activities in both the public and private sectors has been estimated at \$6 billion. Sewage treatment plant upgrades and urban run-off controls represent about \$3 billion of that amount, excluding most of the cost for upgrading Metro Toronto plants. Under current funding arrangements, the Ministry's share of that \$3 billion would be \$1 billion. Without significant increases in provincial and federal funding, especially for implementing MISA proposals for upgrading sewage treatment plants, it is unlikely that communities will be in a position to realize RAP goals.



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# RESPONSE

The Deputy Minister of the Environment responded to our report on September 15:

## MISA

### MISA-INDUSTRIAL

*Delays in development of the MISA Industrial regulations are attributable to several factors: the technical requirements for defensible regulations; the emphasis on consultation within and outside of government and industry; and the compounding impact of an economic recession.*

#### Extensive Database

*The data collected serve to confirm what was generally known, but also provide insight into the nature of toxic compounds that were present in effluents. This database is far more comprehensive than is available in other jurisdictions. The Ministry would have been unable to regulate toxics for the most part had it relied on the information available.*

*Regulations could not be based solely on the US industrial experience without risking court challenges from industries.*

*In many cases, the substances which are being regulated were not known prior to testing. Also, the regulations will not be restricted to the most dangerous substances.*

*The parameters selected for control were determined on the basis of technical and economic factors. Although this process has limited the number of parameters regulated to a range of 10 to 15, the regulations will result in control of other toxic substances at the same time.*

*BAT studies were commenced in most cases while the data were being collected. It was necessary, however, to provide the consultants with approximately six months of data on the substances present so that the areas of search could be specified. The MISA program incorporates pollution prevention principles, which requires companies to look beyond end of pipe technology and consider fundamental changes in plant processes. The strong database is essential to point out the chemicals of concern for phasing out.*

#### Managing the Consultation Process

*Consultation with stakeholders is one of the main features of the MISA program that has greatly assisted in the regulatory process. The consultation process was agreed upon when the MISA program was formulated and was controlled and implemented accordingly.*

### MISA-MUNICIPAL

*MISA Municipal has two complementary programs. The Sewer Use program is necessary for control of toxics from those industries discharging to municipal sewage treatment plants. The upgrading of primary sewage treatment plants is necessary primarily to control the discharge of conventional pollutants such as suspended solids, phosphorous and biochemical oxygen demand. However, some toxics also will be removed.*

*With respect to sewer use, the Ministry has implemented an extensive training program to prepare municipalities for implementation. Much of the consideration given to this program centres around assisting municipalities by minimizing cost impacts.*

The large expenditures required for upgrading sewage treatment plants have been the primary reason for delays. Several studies have been undertaken to find ways to reduce costs. Discussions are ongoing within the Ministry to arrive at less costly options for delivering this program.

### **Regulating Sewer Use**

The Ministry has been working with municipalities on program development. Components of the program include: demonstration projects on pollution prevention; best management practices and municipal enforcement; and training of municipal officers.

The 44 municipalities which have adopted the bylaw represent 58 per cent of the population of Ontario. The additional 20 municipalities which are in the process of adopting the bylaw represent 13 per cent of the population.

The program is in the process of being developed. Cost estimates discussed by the Auditor refer to one of many possible implementation options. The Ministry is presently scoping the options to address various concerns including those of cost.

With respect to training of Municipal Enforcement Officers, the Ministry has, over the past four years, developed five training courses at a cost of \$200,000. Forty to 100 Municipal Inspectors have attended the different courses. The Ministry has funded 50 per cent of the attendant costs, approximately \$200,000.

Cost estimates used in the program are based on costs of analyses at commercial laboratories. All municipalities have access to a commercial laboratory.

Proposed options in the Sewer Use Program include mechanisms such as pollution prevention and "Best Management Practices". These practices are known to reduce toxic waste generation.

The question of the capacity for disposal of toxic waste at existing facilities and the need for the (OWMC) facility is being addressed through the independent ongoing Environmental Assessment Board Hearing.

### **Upgrading Sewage Treatment Plants**

The study further showed that the magnitude of acute and chronic toxicity in sewage treatment plant (STP) effluent ranges from "low" to "moderate". In most instances, the effluent would be non-toxic after an initial mixing at the discharge points.

Presently, four of the primary STPs are under construction and five are at various stages of planning to be upgraded to secondary treatment. The Ottawa plant is the largest primary STP in Ontario. Total pollution loadings from the 418 STPs will be reduced by 11 per cent (equivalent to 23 tonnes per day) and contributions from the remaining primary STPs will be reduced to 22 per cent when upgrading of the Ottawa plant is completed in 1993.

The Ministry is investigating "low cost" alternatives to the conventional pollution control measures that have led to the \$3 billion estimate.

## **WATERSHED MANAGEMENT PLANS**

The Ministry has found that there are other means of protecting the environment. In partnership with other agencies, the Ministry has used education, incentives and "encouragement" to positive effect. This is consistent with current government initiatives emphasizing partnerships and disentanglement.



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*The Ministry has found that inadequacies in background information affect environmental decision making. The watershed management processes are intended to alleviate those inadequacies.*

*Vast amounts of information have been compiled by government agencies for the purposes of wetlands protection. One notable system is the wetlands classification system which was developed by the Ministry of Natural Resources.*

*The Ministries of the Environment and Natural Resources have made effective use of the information which is available to assure protection of the environment through programs based on education and encouragement.*

## **URBAN WATERSHED MANAGEMENT**

*Since 1985, the Ministry has been funding municipal pollution control planning studies and has provided capital monies for municipal storm water treatment and combined sewer overflow (CSO) abatement measures through the Beaches Program. Expenditures to date are in the order of \$20 million.*

*OMB hearings are not the only means of protecting the environment. This Ministry and the Ministry of Natural Resources have been working to provide accurate, adequate background information to assist in land use decision making, persuasion and education on the importance and appropriateness of good environmental practice.*

*The Planning Act and any of the policy statements issued under the Planning Act also lack funding mechanisms.*

*Watershed plans provide the basis for making land use decisions which under the Planning Act are a municipal responsibility. A wide variety of mechanisms are provided in the Planning Act for the resolution of conflicts at that level.*

## **RURAL WATERSHED MANAGEMENT**

*The criteria for CURBS funding restrict the program to initiatives which will improve beaches.*

## **REMEDIAL ACTION PLANS**

*The RAPS program has achieved a significant number of positive results in terms of the scientific work and remediation to date, the strong public involvement and community support that has been generated and the close associations that the Ministry has established with its sister ministries, municipalities and the public.*

*Significant environmental improvement already has occurred as a result of the RAP program. RAP principles and goals have been adopted by several municipalities for incorporation into official municipal plans and local land use planning (Collingwood, Bay of Quinte, Hamilton, Severn Sound).*

*As well, pollution abatement and clean-up efforts in Areas of Concern have received significantly higher attention, and public involvement and support since the RAP program was started. Municipalities in such areas as Collingwood, Bay of Quinte and Severn Sound are strong proponents of the RAPs and have taken the lead in generating support for environmental protection and clean-up.*



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## RAP SCHEDULES

*While it is true that RAPs implementation schedules are currently not defined, such scheduling is to be developed once the Stage 2 reports have been submitted to the governments.*

## CO-ORDINATION WITH RELATED PROGRAMS

*MISA is predicated on end-of-the-pipe control of toxics. The RAPs program does not duplicate MISA but has been structured to build on the MISA regulations which will provide the minimum requirements for effluent control.*

*Where watershed planning studies exist, such as the Toronto Area Watershed Management Study (TAWS), these have been merged with the RAP program.*

*There is no formal mechanism for communication between RAP Teams and personnel involved in MISA or watershed management development; however, strong liaisons have existed all along with staff responsible for the development of municipal and agricultural watershed management policies. Senior staff, including MISA designated staff, meet on an as-required basis to share insights on a wide range of water issues, including watershed management and MISA initiatives.*

## LONG-TERM FINANCING

*Between 1986 and 1992, the Ministry spent approximately \$12 million for the development of RAPS. In 1991/92, the Ministry allocated \$0.5 million from CLEANSWEEP funds to support RAPS implementation measures. In 1992/93, \$3.5 million was allocated from jobsOntario funds to RAP areas to implement municipal remedial measures. Annually, approximately \$30 to \$40 million of Ministry Capital Grants is provided to support municipal sewage treatment plant maintenance and upgrades in RAP areas.*

# Corporate Payroll System

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In 1983, the Ministry of Government Services began working on a Corporate Human Resources Information System (CHRIS) to integrate existing payroll and attendance applications and provide additional human resources management functions at an estimated approved cost of \$4.9 million.

The Ministry initially felt that the desired results could be achieved by changing existing applications, and made a number of enhancements between 1983 and 1987. By 1987, the project team determined that existing applications could not support the integrated human resources functions. As a result, approval was given for a completely new integrated system for payroll and human resources with a new budget of \$13.7 million.

However, by 1989 this attempt proved unsuccessful and the project was scaled down to provide simplified and standardized payroll and pension systems only at an estimated additional cost of \$16 million.

Since then, the project has progressed more rapidly. The Ministry appointed a senior executive as corporate sponsor to represent all clients. This approach reduced the time and effort required to get approval from users when making decisions.

By September 1991, the Ministry had completed the pension benefits disbursement component of the application (CORPEN). This system is designed to process payroll for over 35,000 pensioners managed by the Public Service Pension Board and 300 pensioners paid by the

Ministry. In mid-September, the Ministry converted the 300 pensions they administer from PENPAY to CORPEN.

The second component of the application, scheduled for full operation by the fall of 1992, will process the payroll for approximately 100,000 public servants (CORPAY). The final completion of CORPAY with such additional features as payroll for contract employees and facilities for on-line pay cheque calculations, has been deferred until this component is operational.

From 1984 to mid 1991, approximately \$32 million was spent on these initiatives.

Our audit focused on the managerial planning and control over the development and acquisition of the CORPAY and CORPEN components. In addition, we examined management controls for payroll and benefits processing with an emphasis on automated controls designed to safeguard the data.

The objectives of our audit were to assess whether:

- the business case sufficiently proved that the selected solution would be the most workable and cost-effective choice from among the alternatives; and
- system resources were adequately secured from unauthorized access and changes or unexpected interruptions.

We obtained information through interviews, observation and the review of available documentation.

## CONCLUSIONS AND FINDINGS

### JUSTIFICATION

The Ministry did not prove that the planned payroll application would be the most workable and cost-effective choice from among existing and alternative solutions. In particular, we noted that:

- alternatives from the private sector and other governments were not sufficiently analyzed;
- the expected benefits from the application will not exceed the costs over the projected life of the application; and
- the new payroll system will duplicate some existing systems that must still be kept.

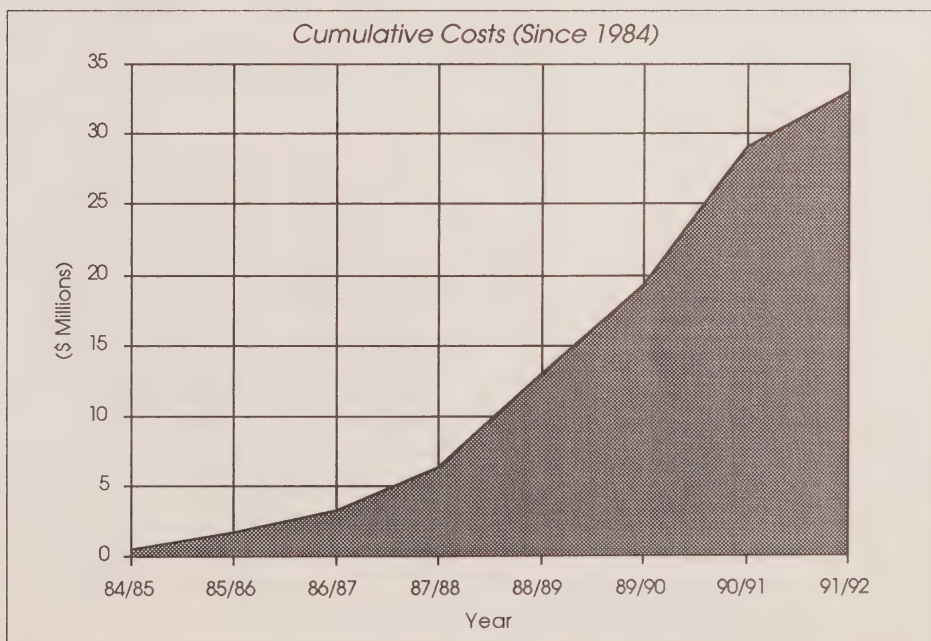
### SECURITY

Data and software were not adequately secured from unauthorized access and changes or unexpected interruptions. For example, we found that:

- payroll and other data were not protected from unauthorized access and changes;
- the confidentiality of the payroll information for retired government employees was compromised during testing; and
- a tested business resumption plan for the corporate payroll had not been developed to ensure continued operation after disruption of service.

### OTHER MATTERS

- Due to the slow progress in the development of a centralized human resources system, 21 ministries estimated that they have developed, or will develop, human resource applications at a total cost of over \$2.2 million.
- The Ministry spent \$2 million to develop the pension application (CORPEN) primarily for the Pension Board, but the Board subsequently re-evaluated their plans to use it.



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# COMMENTARY

## JUSTIFICATION

Management Board Directives establish the principles and mandatory requirements for effective and efficient management of information technology. The Directives require that a business case for any information technology project itemize in monetary terms all costs, benefits, and accumulated benefits on a year-to-year basis until a trend of continuing benefits is ascertained. Total benefits must at least exceed total estimated costs within a four-year period from the date of implementation, unless otherwise approved by Management Board.

The business case prepared in 1989—when the project was scaled down—did not prove that CORPAY would be the most workable and cost-effective choice from among existing and alternative solutions. For instance, analysis showed that contracting for payroll services from the private sector would be less costly than CORPAY over a 14-year period. However, the analysis did not adequately show why this option was not chosen over development of a completely new application.

In addition, because of the relatively short time for the analysis, the Ministry did not sufficiently analyze whether payroll applications from other governments or large private sector firms could be adapted economically to meet the Province's needs.

In reviewing the business case, we noted that, although the Ministry predicted that the new application would be in use for approximately 15 years, they estimated it would take 17 years for the Province to recover the costs incurred.

The Ministry's business case did not consider the \$3.4 million cost of operating the existing application during implementation of the new application. Including this cost

in the payback analysis would delay recovery another 6 years, to a total of 23 years. Also, the Ministry did not assess costs to clients of converting to and operating the new application.

Since the projected life of the application is 15 years, our analysis indicates that the benefits will not exceed the costs,

The Ministry also justified developing a new payroll application because of a consultant's 1989 estimate that the existing one was likely to break down within the next 3 years, causing disruption in pay to public servants. Yet, no breakdown has occurred since the assessment, despite significant changes to the existing application.

Lastly, the objective of the new application was to replace an existing payroll application. Yet, once the new system is operational, the existing one will still need to be kept in order to pay certain employees.

## SECURITY

CORPAY maintains and processes confidential information, such as the name, social insurance number, date of birth, pay, spousal and dependent status, garnishees, and support orders for employees and pensioners.

There are at least five different software security mechanisms to control access to this information on the Toronto Development Centre mainframe computer: network access software, access control software, communications software, database software and application security software. From a security standpoint, the proper implementation of the control features within the software would ensure that CORPAY operated within an adequately controlled environment.

During our testing, we defeated the various security controls and could access payroll data. We determined that any of the other



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mainframe users could have done the same thing. For example, we found:

- in unprotected files, passwords belonging to powerful user accounts, which could do anything on the computer. These passwords could have potentially been used by users of the Toronto Development Centre to read or change any information stored on the computer; and
- due to the way the Ministry installed its terminal software and the availability of a powerful system utility, any user could read CORPAY user passwords and make unauthorized changes to payroll data.

We also found that it was possible for over 100 Human Resource Information Services users to by-pass Ministry restrictions and make unapproved changes to the CORPAY application, although we found no evidence of this happening.

There were additional serious problems with controls over passwords:

- in November 1990, a Ministry Internal Audit report noted that passwords were visible whenever a user changed passwords. Neither the software supplier nor the project team had fixed the deficiency at the time of CORPEN implementation. Most software packages do not allow passwords to appear on the screen because of the danger that an unauthorized person could see a password and use it to enter the payroll application;
- users could choose one-character passwords, a security risk because single-character passwords are easy to guess for someone attempting unauthorized access to the payroll application; and
- a common precautionary measure to prevent unauthorized persons from eventually guessing passwords is to suspend access to a user account after several incorrect password attempts. The CORPAY application security

software allowed an unlimited number of guesses.

Contrary to provisions of the *Freedom of Information and Protection of Privacy Act*, the project team used private information of retired government employees during testing of the pension portion of the CORPAY application. The project team had 45 user accounts with access to this information and two of the accounts even belonged to former employees.

Large scale computing facilities generally develop business resumption plans to organize a response to any unforeseen disaster, which might leave the computing facilities unusable. The Ministry should plan alternate computing facilities and assign responsibilities to ensure a timely resumption of service and that plan should be tested. No tested business resumption plan was available to ensure a timely resumption of CORPAY functions.

The CORPAY application is located at the Toronto Development Centre mainframe computer, not the Toronto Production Centre where production applications usually operate. Negotiations were in progress to decide the eventual operating site and this uncertainty may have resulted in the lack of a business resumption plan.

## OTHER MATTERS

### HUMAN RESOURCES

The original project began in 1983 to integrate existing payroll and attendance applications and to provide additional human resources functions, such as central monitoring and reporting of job vacancies.

In October 1989, the Ministry deferred the Human Resources component of the project to concentrate on payroll. At that time, the sponsorship for future human resource initiatives was given to the Hu-

man Resources Secretariat. Ministries who needed this functionality had either to develop a system or to wait for future initiatives.

We surveyed all Ministries regarding their payroll and personnel activities. As of October 1991, 8 out of the 25 ministries that responded to our questionnaire had developed human resources systems since 1983 at a cost of over \$1 million. Another 13 ministries planned to develop a human resource application within the next three years at an estimated total cost of more than \$1.2 million.

However, in June 1991, Human Resources Secretariat announced plans to develop a Human Resources Information System to help ministries with reporting requirements for Employment Equity and the Senior Management Compensation Plan. It subsequently sought help from external consultants to define the human resource needs of the government.

We are concerned by this apparent duplication of effort. Clearly, more central co-ordination is needed before any further work on human resource applications is undertaken by ministries and central agencies.

## PENSION PROCESSING

The Ministry spent approximately \$2 million since October 1989 developing the CORPEN application to process payroll for 35,000 pensioners administered by the Public Service Pension Board and for another 300 pensioners paid by the Ministry. In March 1991, the Pension Board delayed its plans to convert, and now plan to evaluate other pension applications. If it had been known from the beginning that Pension Board was not planning to use the new application, it is likely the Ministry could have processed the payroll for their 300 pensioners in a more economical way, such as using the existing PENPAY. The Ministry would have saved \$2 million in development costs.



## RESPONSES

The Deputy Minister of Government Services responded to our report on March 27:

### JUSTIFICATION

*In October 1989, the options available to replace the current payroll systems were presented by the Ministry of Government Services (MGS) and reviewed by Management Board of Cabinet. The audit opinion on the degree and appropriateness of that analysis should take into account the administrative environment of the Ontario Public Service. For example, two years previously, options such as privatization were not acceptable because of security issues. However, in August 1989, Management Board of Cabinet requested a rigorous but informal analysis of privatization and other options. We believe the analysis of options was appropriate given the complex nature of the Ontario Public Service environment, the time available and feasibility of particular options.*

*The decision to proceed with CORPAY was made on the analysis of a number of complex factors rather than on the basis that quantifiable benefits would exceed costs. Management Board of Cabinet, in October 1989, approved the current plan of delivering a uniform, corporate payroll, personnel, and benefits application. This decision was based upon three factors:*

- *an independent report assessed the current systems as having a medium risk of missing a payroll;*

- *there was a desire to build for the future, allowing for the addition of the deferred Human Resources and other systems; and*
- *other options did not appear to offer significant benefits but had known risks as a solution for the large and complex scope of payrolls in the Ontario Public Service (with 135,000 payees and \$4 billion of annual expenditures).*

*The current systems are not duplicated in the new payroll systems, except for pension systems (see note below). CORPAY, when fully installed, will replace all of our current IPPEBS payroll(s).*

## SECURITY

### Application

Beginning in the December 1990 testing phase, MGS took steps to improve security at the application level. A new staff was recruited and an external consultant was used to guide staff in how to improve our security process. While we agree with the audit points that staff had inappropriate access, during testing, to pension data, many aspects of security are improving. For example, (a) procedures are in place to monitor and prevent attempted activities such as unauthorized access to systems and (b) data access is now approved by the owner of the data. Although the business resumption plan was not tested, we are now working towards testing it as part of our migration to the production facilities of Computer and Telecommunication Services (CTS). MGS internal audit, in preparation for the CORPAY implementation, is now reviewing the HRIS Branch Security area as part of their ongoing audit of CORPAY.

### Computer Environment

CTS has made significant improvements in security over the operating system environment. These improvements were verified by MGS Internal Audit Branch. CTS hired an external security specialist to identify other controls which would assist CTS in their continued improvement of security. A phased plan has been developed to implement these controls over the longer term. CTS is currently developing new security guidelines and creating benchmark security standards to ensure a higher level of security over CTS resources.

## OTHER MATTERS

### PENSION PROCESSING

*We agree with your finding. MGS continues to wait for the final decision from the Ontario Pension Board on their use of the new payroll system.*

The Secretary of Management Board of Cabinet responded to our report on May 6:

## OTHER MATTERS

### HUMAN RESOURCES

*The audit report identified the need for a more centrally co-ordinated approach to human resource management systems. We agree with this finding.*

*In fact, the original CHRIS system was based on the same concept. Unfortunately, the complexity of one human resource system to meet the divergent needs of all the various government ministries*

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*and agencies turned out to be overly ambitious and expensive. The Board's decision to focus on payroll as the most critical need, and to defer action on the human resource components was designed to minimize risk and to control expenditures. It was recognized that some ministries had pressing and unique human resource information needs that could not be deferred. These were to proceed independently once appropriate Management Board of Cabinet approvals were obtained. To date, the evidence would suggest that these small independent information systems have been relatively inexpensive and quite effective.*

*In June 1991, Management Board Secretariat began a review of human resource information needs as they applied to Employment Equity. Since the CORPAY payroll system development has been largely completed, the time has come to once again consider the broader corporate human resource requirements of the government. We have extended the June 1991 review to include this and also to examine the unique human resource information needs of ministries. This will permit us to determine the most effective way of addressing the co-ordination of ministry and central agency information resources for the future. Experience would suggest that it is unlikely that this will result in a single, one size fits all, government-wide human resource system such as that originally contemplated under CHRIS.*



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## MINISTRY OF HEALTH:

# Queen Street Mental Health Centre

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The Queen Street Mental Health Centre is a 535-bed facility situated in the City of Toronto which also offers services to 1,700 out-patients at 12 community clinics. The Centre specializes in the care of adults suffering from severe mental illness and provides psychiatric assessments, diagnosis, treatment, rehabilitation and re-integration into the community, as well as on-going support.

For the 1991/92 fiscal year the Centre's expenditures were approximately \$74 million, of which \$64 million was spent on salaries and benefits for the Centre's 1,200 staff.

Our audit focused on in-patient care, since this accounted for approximately 75 per cent of the Centre's salaries and benefits.

One of our audit objectives was to assess whether established policies and procedures, including the *Mental Health Act*, were being followed.

We interviewed Centre personnel and patients. We also surveyed Centre psychiatrists and nurses, and reviewed the clinical records regarding the admission, treatment and discharge of patients, as well as other available documentation including the minutes of key committees.

## CONCLUSIONS AND FINDINGS

### COMPLIANCE

We concluded that established policies and procedures were generally being followed. However, we were unable to conclude whether the Centre complied with certain sections of the *Mental Health Act* relating to the rights of patients to be fully informed about their treatment.

### OTHER MATTERS

- There was no documented evidence that significant differences in ward readmission rates were followed up.
- During the 1991/92 fiscal year, 182 patients went AWOL (away without authorized leave) a total of 400 times. This is twice the frequency with which patients went AWOL in the 1990/91 fiscal year.
- Financially capable patients were not charged for their maintenance at psychiatric hospitals contrary to provisions of the *Mental Hospitals Act*.

### BACKGROUND

The Centre's operations are governed primarily by the *Mental Health Act* and Regulations, and the *Mental Hospitals Act* and Regulations. The *Mental Health Act* gives clear guidance for the fair and equal treatment of those who need mental health care. The Centre's administrator is responsible for its day-to-day operations and

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reports to the Director of the Mental Health Facilities Branch of the Ministry of Health.

The Centre is an accredited teaching hospital affiliated with the University of Toronto. It serves approximately 2.1 million people in the cities of Toronto, Etobicoke, North York (west of Yonge Street), York and the Region of Peel. The Centre has between 14 and 35 patients on each of its 16 wards.

## COMMENTARY

### COMPLIANCE

#### CENTRE COMMITTEES

The two main committees of the Centre are the Community Advisory Board (CAB) and the Management Committee.

The CAB is comprised of community representatives, including mental health consumers, appointed by the Minister of Health. Senior Centre officials and the President of a union local also attend the meetings. The CAB's mandate includes developing and maintaining effective avenues of communication between the Centre, the community it serves, and the Ministry. The CAB carries out its mandate in accordance with by-laws which are established by the Centre and approved by the Minister. The July 1991 by-laws state that this committee's purpose includes ensuring compliance with the *Mental Health Act* and advising the Minister of Health on the Centre and other appropriate health issues. There are five standing committees which report to the CAB, including the Executive Committee and the Quality Assurance and Patient Care Committee. These Committees are comprised of management and CAB members.

The Management Committee comprises the Centre's administrator and other senior

Centre officials. Its mandate includes allocating human, financial and material resources, and making decisions on changes in services to be provided and operational issues related to the treatment and care of patients. The administrator reports significant direct patient care matters and other high profile issues to the Mental Health Facilities Branch and also reports pertinent issues to the CAB. Over 45 Centre committees report directly or indirectly to the Management Committee, including the Medical Advisory Committee, the Psychiatric Audit Committee, the Professional Advisory Committee, the Quality Assurance and Risk Management Committee, the Utilization Review Committee and the Employee/Management Relations Committee.

We reviewed the minutes of meetings of 12 committees, including those mentioned above, for the past three fiscal years as well as various committee reports as they related to other areas of our audit. We found that these key committees were generally meeting the required number of times, addressing matters in accordance with their terms of reference, and following up on significant items brought to their attention. However, we also found that the CAB did not ensure the Centre's compliance with the *Mental Health Act*.

Recently a Centre task force was established to restructure the CAB and its five standing committees. This restructuring includes redefining the CAB's roles and responsibilities.

#### ADMISSION POLICIES

The Assessment and Admitting Department is the point of contact for persons who seek help on their own, are brought by family or community agencies, or are referred by another hospital.

The Department is responsible for the psychiatric assessment of individuals, determining the most appropriate treatment alternatives and implementing the post-assessment decisions. This Department has over 15 employees including nurses, social workers and psychiatrists.

During the 1991/92 fiscal year, the Centre assessed over 3,800 individuals for psychiatric illness. Of these, approximately 2,000 were admitted as in-patients.

The Centre's admission policy requires that a psychiatric assessment be carried out on every person arriving at the Department and requesting an assessment. A psychiatric assessment involves documenting basic patient identification and clinical information including the patient's problem, mental status, diagnosis and initial treatment care plan. If the assessment is not carried out by a physician, a physician must sign and document that he or she has interviewed the patient and agrees with the details of the assessment.

A person is admitted to the Centre if the physician documents that the individual is suffering from a psychiatric disorder that requires treatment in the Centre. Patients who require other medical care are referred to a public hospital.

Once admitted, a patient is usually placed on one of the Centre's two crisis wards. After the patient's condition stabilizes, the patient may be discharged or transferred to an appropriate in-patient ward. Within seven days of a patient's transfer to an in-patient ward, a detailed admission history must be completed by the psychiatrist.

The Centre's policies require that a physical examination of a patient be completed by a physician within 24 hours of the patient's admission.

The Nursing, Psychiatric Services, Clinical Records and Assessment and Admitting Departments regularly performed audits of

compliance to many of these policies and procedures. No significant deficiencies were noted in these audits. Our testing of compliance with these policies and procedures also revealed no major deficiencies.

### ***Mental Health Act***

#### ***Application By Physicians For Psychiatric Assessment***

The *Mental Health Act* provides that under certain conditions (e.g., a person is apparently suffering from a mental illness that likely will result in serious bodily harm to the person or another person, or in imminent and serious physical impairment of the person) a physician can apply to have a psychiatric assessment done. The physician makes this application by completing a "Form 1". This Form is valid for seven days after the physician has signed it and serves as authorization to take the person in custody to a psychiatric facility. During the 1991/92 fiscal year the Form was used to assess approximately 800 patients.

Our testing of compliance with these requirements revealed no major deficiencies.

#### ***Involuntary Patients***

According to the *Mental Health Act*, physicians in a psychiatric facility shall admit persons as involuntary patients if, for example, the physicians are of the opinion that the persons are suffering from a mental illness and will likely cause serious bodily harm to themselves or another person, and such persons are not suitable for admission as voluntary patients. In this situation, the physicians complete certificates of involuntary admission (Form 3). A Form 3 is valid for two weeks.

In order for a person under a Form 3 to continue as an involuntary patient after the two weeks, the physician must complete a certificate of renewal (Form 4). When a physician completes a Form 3 or Form 4, the physician must inform the patient in



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writing of the reason, and of the patient's right to retain counsel. Approximately 13 per cent of the Centre's patients are involuntary.

Our testing of compliance with these requirements revealed no major deficiencies.

## **TREATMENT POLICIES**

### **Treatment Process**

Multi-disciplinary treatment teams are responsible for all aspects of patient care at the Centre. Each team is generally responsible for many patients and comprises staff from psychiatry, nursing, psychology, social work, occupational therapy and recreational therapy. Additionally, each patient is assigned a primary nurse responsible for developing a one-to-one therapeutic relationship.

The team is responsible for developing a treatment and care plan for each patient. The care plan is based on the patient's needs and includes assessed and identified problems, planned treatments and daily programs, the objectives and expected outcomes (including a target date for reassessment and re-evaluation), and a review of actual outcomes and objectives met to date.

At least once every two weeks, the team discusses each patient and his or her care plan. The results of this discussion are documented in the patient's record. Additionally, the team revises the patient's care plan at least monthly.

Nursing notes also document the implementation of a patient's care plan. In addition, a progress note usually written by the primary nurse includes the patient's interactions with the primary nurse. The progress note must be documented at least once per week after the patient's second week at the Centre. Every second week, the progress note includes the patient's response to regular medication.

The Nursing Quality Assurance Department performed quarterly audits on in-patient records including compliance to many of the above procedures. No significant deficiencies were noted in these audits.

Our testing of compliance with the treatment procedures also revealed no major deficiencies.

### **Patient Restraints**

Restraints are used to place a patient under control to prevent serious bodily harm to the patient or another person. There are two methods of restraining patients: mechanical and chemical. The method of restraint used depends generally on the patient's condition. The more aggressive the patient, the greater the likelihood that a mechanical restraint will be used.

During the 1991/92 fiscal year, there were approximately 620 orders for mechanical restraints applied to 320 patients. This resulted in approximately 27,900 hours of continuous observation by nursing staff. It also represented a 25 per cent increase in the number of orders and a 40 per cent increase in the number of continuous observation hours from the previous year. Of the 27,900 hours of continuous observation, approximately 6,000 hours were attributable to two patients.

From October 1991 to March 1992 (chemical restraints were first tracked in October 1991), approximately 185 chemical restraint orders were given to 120 patients.

According to the Centre's policies on mechanical and chemical restraints:

- the physician must assess the patient and sign a restraint order;
- a patient must be involuntary when placed in mechanical restraints;
- the type of restraint, name of medication, and the rationale for the restraint



application must be documented in the patient's clinical record;

- patients in mechanical restraints must be observed continuously by nursing staff to ensure patient safety and periodically reviewed by medical staff to ensure the restraint's continued appropriateness;
- after 72 hours, it is recommended that a second psychiatric opinion be sought in order to continue the use of mechanical restraints; and
- long-acting medication must not be used for a chemical restraint.

Since October 1991, the Psychiatric Audit Committee has conducted four audits on the Centre's compliance with mechanical and chemical restraint policies. No major deficiencies were noted in these audits. Our tests for compliance with mechanical and chemical restraint policies also revealed no major deficiencies.

### Patient Incident Reports

There are approximately 80 patient incidents per month of which 50 per cent are assaults. An incident is defined as any happening involving a patient which is not consistent with the routine operation of the facility or the care of a patient. It may be an accident or a situation which might result in an accident. The Centre's Patient Incident Report Policy requires that all incidents be documented on the incident reporting form so that preventive measures can be implemented, where possible, to decrease or eliminate recurrences.

Patient incident reports were prepared by the Nursing Quality Assurance Department from incident forms for the quarters ending December 1991 and March 1992.

To assess whether all incidents were reported on patient incident forms, we reviewed fifteen occurrences which we considered to be incidents according to the Centre's policy. We noted that patient

incident forms could not be located for five (33 per cent) of these occurrences. For example:

- in one case the clinical record stated that one patient struck another patient on the side of the face and that the struck patient appeared extremely tremulous and shaken after the incident; and
- in another case the clinical record indicated that a patient made advances towards another patient who repeatedly denied consent.

As well, 18 of the 52 nurses responding to our survey indicated that there are types of patient-related incidents which are not reported although the Centre policy requires them to be reported.

In reviewing quarterly patient incident reports, we found no documented evidence of follow up of significant differences. Our review of these reports revealed many significant differences which we felt warranted follow up. For example, in one ward, patient incidents increased from 12 during the quarter ended December 1991 to 30 during the quarter ended March 1992; in this ward, there were 42 patient incidents for the six months ended March 31, 1992, and in a similar ward there were four incidents.

A Centre task force formed in February 1991 recommended changes to the Centre's policies and procedures on incidents in order to provide staff with improved guidelines for the control and management of patient-related incidents and the analysis of incidents. We were informed by senior management that revisions to many of the Centre's incident policies and procedures were made recently and that additional changes are currently being reviewed by the Ministry.

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## ***Mental Health Act***

### ***Consent to Treatment***

According to the *Mental Health Act*, informed consent must be obtained before specified psychiatric and other related medical treatment are provided. Such consent is obtained directly from patients who are mentally competent, and from substitute consent-givers for patients who are not mentally competent. In the latter case, physicians must inform the patients in writing that they are not considered mentally competent to consent to treatment, and must also notify the Rights Advisor of the Patient Advocate.

"Mentally competent to consent to treatment" is defined in the *Mental Health Act* as having the ability to understand both the nature of the illness for which treatment is proposed and the treatment proposed; and to appreciate the consequences of giving or withholding consent. During the course of our audit, the Centre issued a policy which requires the physician to document when a patient is adjudged mentally competent to consent to treatment.

"Informed consent" is defined by Ministry policy as consent obtained following an explanation by the physician of the proposed treatment, its severity, any material risks of injury and any special risks relating to the specific treatment, the consequences of leaving the illness untreated and the alternative forms of treatment, if any, and their risks. The Centre has a policy requiring that informed consent be documented by the medical staff.

In October 1991, the Centre's Psychiatric Audit Committee identified consent to treatment as a high-risk area which warranted an examination for compliance to hospital policies.

Information reported by the Centre to the Ministry, as of March 1, 1992, indicated that 83 per cent of the Centre's patients were

competent to consent to treatment. The average for the other nine psychiatric hospitals was 64 per cent.

Our tests to determine whether the Centre was complying with the sections of the Act on informed consent and mental competency revealed that:

- 23 of 24 psychiatrists responding to a question on our survey stated that they obtained informed consent. Thirteen of these psychiatrists also stated that they routinely documented this consent in the patients' clinical records;
- in 10 of 15 cases there was no documentation in the clinical records of competent patients that informed consent had been obtained prior to treatment. At the time of our patient interviews, the majority of these patients either chose not to talk with us or had been discharged;
- 11 of 20 competent patients told us during our interviews that they had not received explanations from Centre staff of the side effects of their medication before they were asked to take the medication. Another four did not know whether they had received explanations;
- 21 of 22 psychiatrists responding to another survey question stated that they routinely assessed each patient's mental competence to consent to treatment. Eighteen of these psychiatrists also stated that they routinely documented the basis for this decision;
- out of 15 clinical records of competent patients, 7 had no documented evidence that the competence of the patients had been assessed. In several of these cases, information on file indicated that the patients may not have been mentally competent to consent to treatment. For example, in one patient's record the psychiatrist indicated that although the patient's insight was rather poor as to the patient's psychiat-

ric problem, the patient was willing to stay and accept treatment. According to the Court of Appeal for Ontario, while there is a presumption that adult patients are competent, a physician is under a duty to remain alert for signs of incompetence, even in a patient who is willing to be treated;

- out of 10 clinical records of incompetent patients, 3 had no documented evidence that the patients had been served with a written notice of the finding of incompetence by the physician. We understand that the Rights Advisor of the Patient Advocate has not been notified of two of these cases. In one of the seven cases, the patient and the Rights Advisor of the Patient Advocate received the written notice of incompetence approximately one year after substitute consent was obtained; and
- clinical records of incompetent patients indicated that in 7 of 10 cases the written consent that had been obtained was very general. For example, consent was obtained to administer psychotropic medications, and no specific medication, dosages or time frames were mentioned.

We recommend that periodic reviews be undertaken by the Centre to ensure compliance with the Act with respect to obtaining informed consent. We also recommend that procedures be established to ensure consistency in documenting informed consent including the specificity of treatment to be provided.

## DISCHARGE

A multi-disciplinary team is responsible for planning a patient's discharge, which includes arranging for the patient's care after discharge (aftercare) and housing needs. The patient's aftercare may include attendance at an out-patient program of the hospital or a community clinic, or seeing the patient's family doctor or psychiatrist. It is the patient's responsibility to attend

the aftercare arrangements. The Centre's staff are not responsible for discharged patients. During the 1991/92 fiscal year, approximately 2,000 patients were discharged from the Centre.

Within 24 hours of a patient's discharge, a disposition data form is completed and signed by the patient's psychiatrist. This form includes the patient's residence on discharge and the aftercare arrangements made for the patient.

The psychiatrist is also responsible for completing a discharge summary within 14 days of each patient's discharge. This summary includes the actions taken by the Centre to address the patient's financial and medication needs.

The Clinical Records Department reviews the records for all discharged patients to ensure the disposition data form and the discharge summary have been completed.

Our tests of the above procedures revealed no major deficiencies.

## OTHER MATTERS

### PATIENT READMISSIONS

A 1991 study by Centre and Ministry staff prepared for the Ontario Mental Health Foundation on psychiatric patients living in the community stated:

"In the field of mental health, there has been a shift from prolonged continuous hospitalization to repeated, brief hospital stays... For some mentally ill individuals, decreased length of stay in the hospital has resulted in the 'revolving door syndrome', which is becoming increasingly apparent as readmission rates increase... In view of the current treatment goal of maintaining the mentally ill in the community, the rising rates of readmission are of in-



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creasing concern to mental health professionals and administrators... A significant number of hospital admissions for the chronically mentally ill could be averted if treatment and environmental predictors of re-hospitalization were identified and monitored."

Recent research suggests that former patients are more likely to be re-hospitalized if they have had a number of previous admissions, did not take their medication or had a deficient living situation or social support.

We noted that in the autumn of 1991, Centre management and Ministry staff identified the readmission rate of the Centre as one of several significant cost-effectiveness issues.

Our review of the Centre's in-patients on December 18, 1991, revealed that 77 per cent had been previously hospitalized at the Centre. The average readmission rate for the other nine psychiatric hospitals was 65 per cent on December 18, 1991. For the fiscal year ended March 31, 1992, 77 per cent of admissions to the Centre were readmissions. Of these readmissions, 42 per cent occurred within three months of discharge and 68 per cent occurred within one year of discharge.

While the Centre has compiled statistics comparing ward readmission rates each year since June 1989, we saw no documented evidence that significant differences were followed up. For example, on one ward 77 per cent of admissions were readmissions, and on a similar ward 55 per cent of admissions were readmissions.

We recommend that statistics on readmission rates be reviewed periodically and significant differences followed up.

## **PATIENTS AWAY WITHOUT AUTHORIZED LEAVE (AWOL)**

A person may be admitted to the Centre as a voluntary or involuntary patient, or as a patient under an order of the Ontario Criminal Code Review Board (OCCRB).

An OCCRB patient is a person who has been found by the courts to be either unfit to stand trial or not guilty by reason of insanity. All OCCRB patients are considered registered in-patients of the Centre. However, they may be allowed to temporarily leave the Centre or live in the community in accordance with the terms of their order.

Of the Centre's registered in-patients, approximately 78 per cent are voluntary patients, 13 per cent are involuntary patients, 4 per cent are OCCRB patients requiring care in the Centre, and 5 per cent are OCCRB patients living in the community.

The Centre has 16 wards, including five which are locked. The remaining wards are usually unlocked, but may be temporarily locked by staff if this is in the best interest of the patients. Patients may be granted off-ward privileges (e.g., free access to the Centre and its grounds or free access to the community) in accordance with their condition. Once a patient has been granted off ward privileges, the Centre relies on the patient to comply with privileges granted. Voluntary, involuntary, and OCCRB patients are located throughout the Centre with no particular category of patient assigned to a particular ward.

According to a listing maintained by the Clinical Records Department, 182 patients went AWOL a total of 400 times during the 1991/92 fiscal year. This is twice the frequency with which patients went AWOL in the 1990/91 fiscal year. We were informed by senior management that during this



time there was a system-wide change in policy and a restructuring within the Centre which staff felt adversely influenced the number of patients going AWOL. Information on AWOL patients for the other nine psychiatric hospitals was not available from the Ministry.


We found no documented evidence that the Centre was keeping track of the patients who repeatedly went AWOL or the wards which had the highest number of AWOL patients. Our analysis of the AWOL list for the 1991/92 fiscal year indicated that:

- six were OCCRB patients, three living in the community and three in the Centre's care, and the majority of the remaining 176 were involuntary patients;
- of the 176 patients, 76 (43 per cent) went AWOL more than once, including 12 who went AWOL more than five times;
- the three OCCRB patients in the Centre's care, and one of the three OCCRB patients living in the community, went AWOL more than once. Two of the OCCRB patients living in the Centre went AWOL more than five times; and
- the number of AWOL occurrences on similar wards ranged from 25 to 102.

We recommend that AWOL information be reviewed periodically, and that significant differences be followed up.

## MAINTENANCE PAYMENTS FROM PATIENTS

According to the *Mental Hospitals Act*, financially capable patients admitted to a psychiatric hospital are responsible for their maintenance. The regulations under this Act permit psychiatric hospitals to charge patients for their maintenance based on the per diem rate of the institution. We were informed, however, that financially capable patients were not charged for their maintenance in the Province's ten psychiatric hospitals because of instructions received many years ago from a former Minister of Health.

One inequity resulting from this practice was stated in our 1987 report on the Mental Health Area of the Ministry of Health. We noted that provincial psychiatric hospitals were providing free chronic and nursing home care to some patients, yet similar patients at chronic care hospitals and nursing homes were required to make a co-payment. 

## RESPONSE

The Deputy Minister of Health responded to our report on September 14:

*Thank you for the opportunity to respond to the report on the audit of Queen Street Mental Health Centre. I am pleased that this external review re-affirmed that overall the Centre is operating in compliance with established policies and procedures in its services to adults with severe mental illnesses. The auditors have raised several issues which need clarification and others which call for action.*

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## COMPLIANCE

### CENTRE COMMITTEES

*It should be noted that the by-laws are currently under revision and the clause that the Community Advisory Board should be accountable for ensuring that the Centre is in compliance with the Mental Health Act has been deleted. This by no means diminishes the importance of the Mental Health Act, but simply assigns the responsibility more appropriately to the Administrator of the hospital and the Director of the Mental Health Facilities Branch.*

### TREATMENT POLICIES

#### Patient Incident Reports

*As indicated in discussions with the audit team, the Centre has finalized new policies and procedures relating to incidents and a committee has been struck to review critical incidents. In addition, a debriefing team is being established to work with both patients and staff after an incident occurs.*

#### Mental Health Act

##### Consent to Treatment

*The audit observation that documented evidence was not present on all clinical files of patients who were competent to consent to treatment and who had, in fact, given consent, is noted. This issue will be reviewed carefully by the hospital on a program by program basis.*

*The hospital reports that discussion groups regarding side effects of medication are held regularly on many wards and programs. However, this is an important issue which the hospital will review to ensure information is provided to all patients on an on-going basis, as well as prior to obtaining consent for treatment.*

*The issue of the documentation of the assessment of competence will be explored across programs by the hospital medical audit committee.*

*The hospital agrees with the recommendation that periodic reviews be instituted to ensure that informed consent is being obtained, and this will be done.*

## OTHER MATTERS

### PATIENT READMISSIONS

*The hospital agrees that re-admission rates are potentially significant. Mechanisms will be established to review re-admission rates periodically and to understand significant variations, as recommended.*

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## PATIENTS AWAY WITHOUT AUTHORIZED LEAVE (AWOL)

*Two significant points must be noted:*

- *staff are required by legislation to use the least restrictive measures that are compatible with the individual's mental condition. This requires continued titration as staff endeavour to find the exact point of balance; and*
- *it cannot be assumed that an individual who leaves the Centre without authorization is inherently dangerous. Very few pose a serious physical risk to themselves or others.*

*Nevertheless, the hospital will take steps to track those individuals with a propensity for taking unauthorized leaves, in order to determine the most appropriate course of action.*

# 3.08

## MAINTENANCE PAYMENTS FROM PATIENTS

*The audit observed that the Mental Hospitals Act allows for charges for patient's maintenance to be made. I have asked for a review of the co-payment regulations and the legislation to look at the alternatives to the provincial psychiatric hospitals providing free chronic and nursing home care.*

*We appreciate the auditors' diligence. I am sure implementation of these recommendations will assist us in effectively carrying out our responsibilities.*

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## MINISTRY OF HEALTH:

# Community Mental Health

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The Community Mental Health Activity of the Ministry of Health's Community and Consumer Health Program is primarily responsible for the operational and capital funding of community-based, not-for-profit programs and Homes for Special Care. For the 1991/92 fiscal year, expenditures for this Activity totalled \$310 million.

The Activity is administered by the Community Mental Health Branch (CMHB) which has a staff of 46. Administrative expenditures for the 1991/92 fiscal year totalled \$2.7 million.

Our audit objectives were to assess:

- whether payments were adequately controlled; and
- the adequacy of the Ministry's monitoring of care and services.

Our audit was conducted at the CMHB and the Fiscal Resources and Finance and Accounting Branches of the Ministry, and focused on Homes for Special Care and Community Mental Health and Alcohol and Drug Dependency Programs. We interviewed key personnel at the Branches and reviewed available documentation. We also visited several Homes for Special Care and community programs. The audit covered primarily fiscal years 1989/90 and 1990/91, and 1991/92 where appropriate.

## CONCLUSIONS AND FINDINGS

### CONTROLS

#### Community Mental Health and Alcohol and Drug Dependency Programs

Controls were less than satisfactory. We had significant concerns with how amounts to be funded were determined, and with the financial monitoring and settlement process.

- In many instances, Ministry staff lacked sufficient information about community programs to make informed funding recommendations. This resulted in the Ministry funding questionable items and some items for which no expenditures were actually incurred.
- For the past two years, annual funding increases were based on a program's prior year's budget without a review of surpluses or deficits, or changes to workload. This perpetuated inequities and resulted in excessive funding in some cases. For 24 of the 30 programs which we reviewed, the Ministry provided surplus funds totalling \$1,275,000 and \$842,000 in the 1989/90 and 1990/91 fiscal years respectively, or approximately 9 per cent of the total funds provided.
- Significant program expenditures were approved for one-time capital items



without documenting the necessity of the items approved, or the reasonableness of the amounts provided.

- Ministry funding decisions generally did not take into account programs' other sources of funding, raising the possibility of excessive or duplicate funding. We noted that 10 of 30 programs reviewed had accumulated cash surpluses in excess of 25 per cent of their annual expenditures. In one case, the surplus was as high as 124 per cent.
- Only 205, or 38 per cent of the 539 programs funded, submitted their completed 1990/91 settlement packages before the August 1 deadline.

We also noted that 34 programs that received a total of \$7.6 million in 1989/90 had not filed their 1989/90 settlements by January 31, 1992. Notwithstanding, these programs received over \$16.7 million during the following two years.

- The Ministry provided at least \$1 million in one-time capital grants to several community programs which in turn used the money to hire consultants who performed work at, or on behalf of, the Ministry. In effect, the Ministry used transfer payment funds to pay for items that would normally be paid from its own salary or direct operating expenditure allocations.
- Ministry staff did not adequately monitor the activities and expenditures of a program to attract psychiatrists to Northern Ontario.

### **Homes for Special Care**

Controls over maintenance payments were satisfactory.

### **MONITORING CARE AND SERVICES**

Monitoring of care and services was less than satisfactory. There was no evidence that the Ministry had defined acceptable

levels of care or in most instances, had prepared evaluations on the quality of care provided.

## **BACKGROUND COMMUNITY MENTAL HEALTH PROGRAM**

The Community Mental Health Program was introduced in 1976 in response to a growing need for community-based services resulting from a trend to de-institutionalize patient care.

The objective of this program is to provide individuals with access to community-based mental health services. In many instances, community mental health programs are administered by not-for-profit agencies. The programs are to be used by individuals 16 years of age or older. Programs for children are administered by the Ministry of Community and Social Services.

For fiscal year 1990/91, there were 383 programs such as housing, clinics and social rehabilitation. Expenditures for the year totalled \$122.6 million.

## **ALCOHOL AND DRUG DEPENDENCY PROGRAM**

This program was established in 1983 with the objective of providing individuals experiencing substance abuse with equitable access to a variety of community-based, non-medical programs. For fiscal year 1990/91 there were 156 programs such as counselling/day treatment, residential treatment, and detoxification. Many of these programs are hospital-based. Expenditures for the year totalled \$50 million.

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## HOMES FOR SPECIAL CARE

The HSC program was established in 1964 under the *Homes for Special Care Act*. The program provides supervised community accommodation primarily for patients discharged from provincial psychiatric hospitals.

At the time of our audit, there were 167 nursing homes and 198 residential care homes in the Homes for Special Care program, which housed approximately 3,800 individuals. Expenditures for the 1990/91 fiscal year totalled \$76 million.

## COMMENTARY

### CONTROLS

#### COMMUNITY MENTAL HEALTH AND ALCOHOL AND DRUG DEPENDENCY PROGRAMS

Programs have traditionally prepared annual budget requests using the Ministry's standard line-by-line items such as salaries, rent and utilities, and supplies and other expenses. Branch staff then reviewed these requests in detail and approved a program's funding subject to assessed priorities and overall branch allocations.

Line-by-line changes to the approved budgets are possible at any time during the year, provided that the total budget is not exceeded, the items changed do not commit the program to a larger total budget in the following year, and changes to salary categories receive prior approval.

To streamline this process, programs were awarded "across-the-board" increases of 5.5 and 6.0 per cent for the 1990/91 and 1991/92 fiscal years respectively, based on their prior year's annualized budgets. In

addition, programs were also permitted to apply for additional one-time capital funding or other additional funding in exceptional circumstances.

Funds are flowed to programs twice monthly by the Fiscal Resources Branch using direct deposit. Year-end settlement forms and accompanying audited financial statements are to be received by August 1, or four months after the end of the fiscal year.

#### Funding Recommendations

We were generally unable to determine on what basis budget requests for funding were adjusted or recommended to senior management for approval. In many instances, the Ministry's program consultants lacked sufficient operational information to make informed funding recommendations.

This has resulted in the Ministry funding questionable items and some items for which no expenditures were actually incurred. The following examples illustrate our concern:

- for the past three years, the Ministry provided a total of \$169,000 to an addiction services program. Throughout this time, there was no documentation of program visits, and no activity reports had been received; and
- another program received funding of \$98,000 over the past two years for property taxes on its building in Toronto. However, our inquiries indicated that the building is property tax exempt and no tax costs had been incurred for those years.

The same program was also given \$67,000 to cover the cost of basic telephone service for the past three years while actual costs totalled just \$29,000. Although this program had significant operating surpluses each year, they have not been refunded to the Ministry.

## Annual Percentage Funding Increases

For the 1990/91 fiscal year, programs were asked to submit their normal budget requests, although in most cases they received an increase of 5.5 per cent over their previous year's annualized operating costs. To streamline the budget process even further in the 1991/92 fiscal year, programs did not have to submit budget requests, and were given an increase of 6 per cent over the previous year's annualized budgeted operating costs.

These percentage increases were granted to programs without a prior review of surpluses or deficits, or changes to workload. In many instances the necessity of such across-the-board increases was questionable and only served to perpetuate previous funding inequities.

For example, a random sample of 30 of the 539 programs indicated that 24 had unspent Ministry funds totalling \$1,275,000 and \$842,000 in the 1989/90 and 1990/91 fiscal years respectively, or approximately 9 per cent of the total funds provided by the Ministry. These surpluses occurred after permission had been granted to the programs to utilize unspent funds for one-time capital expenditures. In the 1990/91 fiscal year, 15 of these programs used \$442,000 in surplus operating funds for one-time capital expenditures.

We also noted that ten of these programs had significant recurring surpluses in salaries and benefits for at least two years in a row. As a result, a funding decrease would have been more appropriate than the 6 per cent increase granted in 1991/92.

## One-Time Capital Costs

In addition to annualized funding, programs are permitted to apply for one-time capital expenditures. Requests may be made at the beginning of the year as part of the normal budget request process, or near year end to utilize anticipated surplus

operating funds. Examples of such expenditures would be the acquisition of furniture or equipment, or the renovation of existing premises.

We found that the Ministry approved significant amounts for one-time capital expenditures without documenting the need or appropriateness of the items requested, or the reasonableness of the costs to be incurred. For example, one program received approximately \$1.1 million over three years to acquire and renovate a treatment centre for 20 individuals. There was no evidence that the Ministry had assessed the necessity or appropriateness of this new facility or the reasonableness of the acquisition and renovation costs incurred.

In addition, a significant number of requests for one-time capital items were made late in the fiscal year. Of 30 program files reviewed in detail, 15 contained requests to utilize unspent operating funds. Twelve of these were dated after January 31 for the fiscal year ending March 31, 1991. Therefore, the provision of surplus operating funds in effect encourages one-time capital expenditures.

The Ministry has recognized the inherent difficulty in processing requests for one-time capital items. As a result we were informed subsequent to our audit that future capital requests over \$50,000 will be processed by the Ministry's Hospital Planning Branch.

## Other Sources of Revenue

In addition to Ministry funding, 14 of a sample of 30 programs reviewed for the 1990/91 fiscal year also had other sources of funding, including other Ontario government ministries.

Although branch procedures require the disclosure of other income, and other income would normally be disclosed in audited financial statements accompanying



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settlements, there was no indication that this had been considered in the programs' budget requests or their financial settlement forms. As a result, the Ministry was basing funding and settlement decisions on incomplete information, since excessive total funding or duplicate funding could remain undetected. For example:

- a residential program in Toronto received \$447,000 from the Ministry during the fiscal years 1989/90 and 1990/91, but only spent \$263,000 of that amount. The surplus of \$184,000 together with \$58,000 in accumulated interest was recovered in fiscal year 1991/92. The program also received approximately \$800,000 per year from the Ministry of Housing; and
- while the Ministry provided \$362,000 to another program in the 1990/91 fiscal year, the same program received over \$4 million from other sources.

We noted that in an audit of this program, the Ministry's internal audit branch had previously identified the need for better co-ordination to avoid overlaps in funding.

We also found that a number of programs had significant accumulated cash surpluses relative to their Ministry funding. For 10 of the 30 programs reviewed, cash surpluses exceeded 25 per cent of their annual expenditures. In one case, the surplus was as high as 124 per cent.

These surpluses should be considered by the Ministry in future funding decisions.

### **Financial Settlements**

Line-by-line settlement forms including audited financial statements are to be returned to the Ministry by August 1, or four months after the fiscal year. However, programs were generally not complying with this requirement. Only 205, or 38 per cent, of the 539 programs funded had submitted their completed 1990/91 fiscal year settlement packages before the August

1, 1991 deadline. By the end of January 1992, 225 or 42 per cent of the programs had not filed their completed settlements some ten months after the year end.

We noted that 165 of the 314 settlements received had been processed by the Ministry to the end of January 1992. For the remaining 149 settlements received but not yet processed, approximately \$1.4 million in surplus funding had not been returned to the Ministry as a result of the untimely review of these settlements.

The delay in processing the 149 settlements may, in part, be due to the fact that only one Ministry employee reviews and settles the accounts of all 539 programs.

We also noted that 34 programs that received a total of \$7.6 million in the 1989/90 fiscal year had not filed their 1989/90 settlements by the end of January 1992. Notwithstanding, these programs received over \$16.7 million from the Ministry in the next two years.

### **Branch Expenditures**

During the past two years, at least \$1 million in CMHB administrative expenditures, which would normally be funded by the CMHB's salary and direct operating expenditure (DOE) budget allocations, was paid for by funded programs. These programs were then reimbursed by the Ministry using transfer payment funds for one-time capital items. In effect, one-time capital transfer payments were not used for the purposes intended.

For example:

- for approximately a two-year period up until October 1991, six transfer payment programs entered into consulting agreements with at least eight individuals for a total of \$421,000. These individuals were then assigned to work in the Ministry, primarily as community program consultants.



In fact, one of these consultants was assigned to be the Ministry's community program consultant to the organization that paid for the position. In our view, this placed the consultant in a potential conflict of interest position, since community program consultants among other things review and recommend program requests for funding.

Seven of the eight consulting agreements were for amounts exceeding \$25,000. Although we were advised that the successful candidates had been selected by the Ministry, there was no evidence that competitive selection procedures had been used. Had the Ministry contracted directly with the consultants, Management Board Directives would have required the use of competitive acquisition procedures; and

- the Ministry wanted to retain outside consulting firms to undertake work on its behalf. However, instead of the Ministry contracting with these firms directly and paying for their services using DOE dollars, funded programs entered into contracts with the two successful firms.

We were advised that Ministry staff had interviewed four short-listed candidates prior to selecting the two successful candidates. However, completed rating sheets and other interview notes supporting the selection of the successful candidates could not be located.

Although copies of these agreements and information with respect to actual payments made by the program to the consulting firms were not available in the Ministry, approximately \$474,000 in one-time capital transfer payment grants was flowed to the program for costs incurred on the Ministry's behalf. However, records provided to us by the program indicated that the costs incurred totalled only \$349,000. The program was paid the additional

\$125,000 without support or other explanations on file.

### Psychiatrists in Northern Ontario

Since the 1986/87 fiscal year, the Ministry has funded a program with the primary objective to attract and help attain Canadian licensing for psychiatrists willing to practise in Northern Ontario. Starting in the 1988/89 fiscal year, the program also retained the services of a Native Mental Health Consultant.

The program is affiliated with the department of psychiatry of an Ontario university. Its approved budget for 1991/92 was approximately \$471,000. Total Ministry funding to date amounts to about \$2.2 million.

Ministry staff did not adequately monitor the activities and expenditures of this program.

The following concerns, illustrating the importance of establishing an accountability framework, were noted during our review:

- Approximately \$1.4 million of the Ministry's total funding to the end of the 1990/91 fiscal year related to the objective of attracting and retaining psychiatrists in Northern Ontario. However, of 27 psychiatrists recruited at the inception of the program in the 1986/87 fiscal year, eight remain in the north. Since 1987, five other psychiatrists were recruited, three of whom started in early 1992.
- The cost per retained psychiatrist was approximately \$175,000.
- The program has paid approximately \$13,000 per year, or \$78,000 since its inception, for employee benefits for the ex-chair of the psychiatry department of the university with which it is affiliated. During that time, this person, who is on leave from the university, has

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been the Dean of Medicine at an overseas university.

We were advised that the program agreed to pay for the ex-chair's benefits in exchange for consulting services to be provided to the program during the ex-chair's annual vacation in Ontario, which was assumed to last for two months. However, we were informed that such consulting services have never been provided.

Consequently we questioned the basis on which these payments were made, since they have not resulted in any benefit to the program.

We noted that this matter was also raised in a Ministry internal audit report in February 1990. However, since this arrangement has recently been extended until 1994 when the individual retires, it has not been adequately resolved by the Ministry.

- The program has been paying an annual fee of approximately \$11,000 to the current chair of the psychiatry department of the university with which it is affiliated. There is no documentation as to why these payments were made or how the amount paid was determined.
- Similarly, the program paid its Native Mental Health Consultant approximately \$65,000 and \$59,000 for fiscal years 1989/90 and 1990/91 respectively. Since there was no documentation to support these payments, we were unable to determine the basis on which they were made.
- During the past three years, the program paid the university approximately \$38,000, which we were told was for supplies it did not use. Although the 1990 internal audit report also questioned such payments, they have nevertheless continued.

## HOMES FOR SPECIAL CARE

The responsibility for the Homes for Special Care program is currently split between two divisions of the Ministry. The Community Mental Health Branch is responsible for annual licensing, while the front line placement and monitoring of facilities is provided by the Mental Health Facilities Branch through social work departments in the ten provincial psychiatric hospitals.

Homes for Special Care (HSC) are reimbursed on a per diem basis. Rates are set annually by Regulation, and currently range from \$27.36 per day for individuals in residential care homes to \$64.10 for individuals in nursing homes. We concluded that controls over these payments were satisfactory.

## MONITORING CARE AND SERVICES

Quality of care is important for assessing both the appropriateness of services provided and the reasonableness of costs incurred. Consequently, there should be clear agreement as to what constitutes acceptable quality of care, and what criteria should be used to evaluate it.

These expectations should be documented and agreed to by the funded programs within the overall accountability framework. Periodic monitoring of such expectations by the Ministry will provide assurance that they are being met, or identify a need for corrective action.

However, because of the variety of programs funded by the Ministry, defining and evaluating acceptable levels of care is by no means an easy task. While it could be argued that quality of care issues are in many respects unique to each program, common variables could include such things as staff qualifications, appropriateness of the clinical model, and service outcomes.

## 3.09

Based on our review of program files and discussions with appropriate staff there was no evidence that the Ministry had defined acceptable levels of care or in most instances evaluated the quality of care provided. As a result there was no assurance that an acceptable level of care had been provided and that ultimately value for money had been received.

The following example illustrates our concern.

There are currently no minimum standards of care or criteria for evaluation of the many residential programs funded by the Ministry, including HSCs. In the absence of such standards, there is no assurance that operators have a clear and consistent understanding of what is expected of them.

As a result, operators may intentionally or unintentionally provide service that is inadequate or inappropriate in some respects. In addition, Ministry staff lack common and detailed terms of reference for communicating expectations, conducting home inspections and recommending corrective action.

Examples of minimum requirements for residential programs could include:

- the number and qualification of staff;
- food service requirements and associated record keeping;
- housekeeping; and
- other environmental factors such as requirements for water and air temperatures.

We noted that minimum standards in these and other areas have been developed for nursing homes which are monitored for compliance by Ministry staff. However, these would only apply to the approximately 1,900 HSC residents in nursing homes which are also funded by the Ministry of Health.

We were advised that the Ministry is currently developing a detailed operating standards manual to be distributed to all residential Homes for Special Care. We recommended that the Ministry develop standards to include the other residential programs funded by the Community Mental Health program.



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# RESPONSE

The Deputy Minister of Health responded to our report on August 26:

## CONTROLS

### COMMUNITY MENTAL HEALTH AND ALCOHOL AND DRUG DEPENDENCY PROGRAMS

*Line-by-line changes to the approved budget are recorded and funding reallocations between budget categories must have Community Mental Health Branch approval. However, prior approval to make any adjustments in the Salaries (Direct and Indirect), Employee Benefits and Between categories must be obtained. This process ensures that staffing configurations are adhered to.*

*The increases awarded in the 1990/91 and the 1991/92 fiscal years were based on the Government of Ontario's announced economic adjustment factor, which is applicable to all transfer payment programs and not altered at the Ministry level.*

#### Funding Recommendations

*Consultants receive written funding requests and subsequently obtain any additional detail from programs before recommending approval of any funding request. This information is usually obtained over the telephone and verified during site visits. We acknowledge that written documentation on this verification process may not always have been placed in the files. We will ensure that written notes to file recording the crucial information regarding funding requests are made in response to this finding.*

*The Program referred to [in the first example]... is sponsored by a public hospital. The 1991/92 budget was \$60,099 and includes one unionized full-time equivalent. The service is a component of the Community Mental Health Centre, also funded by the Community Mental Health Branch, and sponsored by the hospital.*

*The services offered by the program include the assessment and treatment of substance abuse problems. The former includes the assessment of personality and other psychological tests. The latter includes behaviour modification, individual and family therapies.*

*The program was funded in 1985, and underwent an interim evaluation in 1986 and a final in 1987.*

*There is a record of a program visit by the Program Development Officer, Ministry of Health in 1986. As well, there are 1986 and 1987 annual reports from the program.*

*The current Community Program Consultant visited the program in 1990 and 1991 to discuss program issues. These visits coincided with visits to the Community Mental Health Centre. As well, the latter was evaluated in 1991.*

*Considerable correspondence has flowed between the hospital and the Ministry during the 1990/91/92 years and there have been frequent telephone contacts. Annual reports were received for the 1990/91 and 1991/92 years. It is currently an on-going program with an evaluation planned for November 1992.*



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*The program referred to in the second example... purchased a three-storey building located [in]... Toronto in July 1988. At that time, property taxes were being paid.*

*In October 1988, the Minister of Health officially opened this facility. At that time, an additional \$200,000 was added to the [facility's] operating budget.*

*The funds were, in part, allocated to help with the maintenance and upkeep of the building.*

*In 1991/92, a comprehensive review of the program was conducted by the Community Mental Health Branch. Funds were subsequently reallocated in order to address service pressures and to accurately reflect approved expenditures.*

*Effective April 1, 1992, the program's base budget was reduced by \$90,000.*

## 3.09

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### **Annual Percentage Funding Increases**

*The annual percentage increase is applied to all programs' base budgets regardless of their previous years financial position. This increase is applied based on the Treasurer's announced economic adjustment factor.*

*A monitoring system has been implemented effective April 1, 1992 to capture recovery patterns for all programs over the last three years. Before a request for one-time funding is approved, this system is checked to ensure that it is appropriate to flow the dollars. It is intended that cash flows will be adjusted when a review of recovery patterns deem it to be appropriate.*

*It is important to note that the presence of some unspent funds is justified, usually due to staff turnover or slower than expected implementation of service enhancements. An automatic permanent recovery of unspent funds would not be appropriate. It is now standard practice to review quarterly financial reports and make fiscal funding adjustments as appropriate.*

### **One-time Capital Costs**

*The written request from the agency is confirmed verbally by the consultant and additional information is obtained as necessary. We will ensure that in future, written documentation is obtained to support each request.*

*Major capital expenditures are negotiated with the Hospitals Planning Branch as a part of their long-term capital plan. The Community Mental Health Branch has been part of this process since June 1991. The Community Mental Health Branch will continue to fund the acquisition of equipment and minor capital items from within its existing allocation.*

### **Other Sources of Revenue**

*Programs are required to indicate through the Community Mental Health Branch (CMHB) budget process other sources of income. The CMHB holds the agency accountable for CMHB funds. The utilization of funds from other sources is the responsibility of the Board of the agency. CMHB staff work closely with staff from other funding Ministries to ensure that double funding for the same activity does not take place. Every effort will be made to enhance this inter-ministry communication.*

*In June 1992, the Community Mental Health Branch issued a directive to all Community Program Consultants requesting that, for those programs that are cost-shared with other provincial ministries, a copy of the approved budget is sent to the appropriate provincial Ministry for review.*

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The issues of funding overlap that were identified in the Ministry's internal audit, were forwarded to the Ministry of Housing by the Director of Community Mental Health Branch on February 15, 1990. Subsequent discussions were held with Ministry of Housing representatives in May 1990.

The Branch was aware of the \$4 million funding the [recipient] received from the Central Mortgage and Housing Corporation, the Ontario Community Housing Assistance Program and the Ontario Housing Corporation as identified in the Annual Financial Settlements of the program dated March 31, 1991. This funding was taken into account when reviewing the cost-sharing arrangements.

A great deal of improvement has been made in the area of settlement recoveries. This is substantiated by the fact that as of June 30, 1992, 485, or 90 per cent of the 539 funded programs for 1990/92 have submitted their settlement packages. Furthermore, 419, or 86 per cent of the 485 settlements received have been completed. Also, effective for the 1991/92 settlements, interim recoveries will be made immediately from programs with surplus funds.

CMHB, through its program management processes, will consider these surpluses as recommended by the Auditors.

### **Financial Settlements**

With respect to the 1990/91 settlement package, nine programs have not yet complied with our request to submit these forms. No one-time or enhancement funding requests are being considered for these programs. A letter was sent to these programs by the Director indicating that cash flows of base funding will be suspended in September 1992, unless the Settlement Forms are received.

Ministry management will review the staffing configuration of the financial support staff involved in the settlement process.

We assume [your example of 34 programs not filing 1990/91 settlements] is a reference to the 1989/90 Settlement Forms. We are continuing to follow-up with those programs which have not complied with the 1989/90 reporting requirements.

In order to ensure that the balance of the 1989/90 settlements had been received, a follow-up letter dated February 20, 1992 was sent to programs. A letter dated July 8, 1992 was sent to those programs which had still not complied, indicating that cash flows will be suspended effective September 1992 until these Settlement Forms have been submitted. One-time requests for funding from these programs are not being processed.

### **Branch Expenditures**

[The practice of entering into consulting agreements with transfer payment programs] has now been discontinued. The arrangement was put in place at a time when staffing pressures were acute. The intention was to provide an opportunity to enhance co-operation and communication between the Community and the Ministry. Staff in these positions were identified through a competitive process or accepted on agency recommendation.

[The practice of funded programs entering into contracts with outside consulting firms to undertake work on the Ministry's behalf] has now been discontinued. The arrangement was put in place at a time when there was significant pressure on Other Direct Operating Expense funds. The Ministry's Audit Branch had recommended that evaluation of our programs be undertaken expeditiously. The backlog of evaluations (168 programs) has now been addressed and an ongoing evaluation tool has been implemented.

We are attempting to locate the completed rating sheets and interview notes supporting the selection of the successful candidates.

We are currently reviewing the year-end settlements for 1989/90 and 1990/91 to ensure that the funding associated with this project was accurately accounted for. An appropriate recovery will be made if necessary.

### **Psychiatrists in Northern Ontario**

The retention of psychiatrists in Northern Ontario has been an ongoing concern to the Ministry. This issue is a component of a generalized problem regarding the ability of Northern Ontario to attract and retain professionals in the health and social service sectors.

The Extended Campus Program (ECP) was evaluated by external consultants in October, 1990. Several recommendations were made regarding the program's relationship with the CMHB. Since its inception, the program has had contact with several other Ministry branches, (i.e., Underserved Areas, Mental Health Facilities Branch, Corporate Policy, Training and Research Branch).

The mandate of the ECP is being reviewed through the current mental health reform strategy. Recommendations regarding the future of the program are expected to be made through this review.

The ECP continues to be funded for the 1992/93 fiscal year. The program has been asked by the Community Program Consultant to submit a budget reflecting their current budget needs. The CMHB plans to make a recovery in the program's base operating budget in 1992/93.

[Regarding the annual fee to the Chair of the psychiatry department], Legal Services Branch is currently reviewing this funding arrangement in order to offer an opinion on whether or not to continue.

Written approval was given by the Community Mental Health Branch for [the Native Mental Health Consultant program].

A memorandum dated January 7, 1988 from the Community Mental Health Branch to the University of Western Ontario confirming authorization for the funding of a Native Mental Health Consultant is on file. However, this Consultant position has not been filled for 1992/93. The cash-flow to the program has been adjusted accordingly.

As indicated previously, the program has been asked by the Community Program Consultant to submit a budget reflecting its current budget needs. The CMHB has initiated a recovery in the program's base operating budget in 1992/93.

## **MONITORING CARE AND SERVICES**

A new Standards and Guidelines Manual developed during 1991 and distributed in early 1992 sets out minimum standards of care along with specific indicators for Homes for Special Care (HSC) staff to use in the assessment and monitoring of these standards.

Specifically, resident staff ratios are identified (1:7) as well as criteria for determining the suitability of HSC applicants (owner/operators) and Home staff.

Currently, the legislation does not give the Ministry authority to screen staff who are most often the direct care givers. However, the guidelines outline Ministry of Health expectations of owners to hire staff who have an understanding of psychiatric disabilities, medication, first-aid and fire safety

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procedures as well as requiring a range of responsibilities to be incorporated into staff duties (i.e., resident supervision, preparation of meals, housekeeping, organization of social activities, reporting incidents, etc.).

The new manual also defines very specific food service and record-keeping requirements. In the area of food service, the manual outlines minimum requirements in the kitchen facilities, food preparation, food storage, food supplies, labelling, and nutrition. In the area of record-keeping, the manual devotes a section delineating the records and files to be maintained by the operators as well as setting out reporting and confidentiality guidelines.

Housekeeping and residents' living space is covered in a number of sections of the manual. There are specific guidelines concerning housekeeping and the physical environment, for example, cleaning/sanitizing linens and other household items; garbage storage and disposal, ventilation; and lighting, to name a few.

With respect to water and air temperature, the new guidelines require water to be controlled by a temperature device so as not to exceed 48.89 degrees Celsius, and the air temperature to be maintained comfortably at all times and not be less than 21.11 degrees Celsius.

The new manual goes beyond those items noted. Most significantly, it establishes resident personal care standards and procedures for Home visits and reviews by the HSC staff.



# Health Registration System

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3.10

In 1990, the Ministry of Health began work on replacing the existing OHIP family-based system with an individual-based registration system for the approximately ten million Ontario residents. By January 1992, over \$39 million had been spent on the new system.

We examined managerial planning and control over the development of the registration system. In addition, we examined the controls for the processing of health card application forms, including both automated and manual controls designed to safeguard the data.

Three objectives of our audit were to assess whether:

- the business case sufficiently proved that the selected solution would be the most workable and cost-effective choice from among existing alternatives;
- registration information was reliable; and
- data, software and hardware were adequately secured from unauthorized access and changes or unexpected interruptions.

We obtained information through interviews, observation and the review of available documentation.

## CONCLUSIONS AND FINDINGS

During the registration of over ten million persons, the Ministry wanted to ensure speedy registration and continuous health

coverage. Admittedly, the Ministry needed to replace the outmoded and unresponsive OHIP system promptly, but it did not develop satisfactory procedures to issue health cards solely to eligible residents.

To compensate, the Ministry had planned to identify ineligible and duplicate cardholders soon after registration, but it had not done so by April 1, 1992. The new individual-based registration system is the cornerstone of the Ministry's plan to reshape Ontario's health care system. Therefore, without effective controls over the accuracy and completeness of registration information, the Province's investment in the registration system is at risk.

## JUSTIFICATION

The Ministry had not proved that the registration system and process were the most workable and cost-effective solution, nor could it support \$137 million of the \$150 million in estimated project benefits.

## RELIABILITY

Controls were inadequate to ensure that registration information was accurate and complete. To illustrate, we noted that the Ministry:

- relied on inaccurate and incomplete OHIP information to verify eligibility for approximately nine million registrants;
- had not developed a formal process to ensure registration information is updated for address changes and

- deaths since its collection began two years ago;
- had registered as many as 300,000 more than the ten million people Statistics Canada estimated lived in Ontario as of January 1992; and
  - had only recently begun to investigate problems with the registration data.

## SECURITY

Registration data and software were not adequately secured from unauthorized access or changes or unexpected interruptions. For example, we found that over 12,000 computer users could read and change registration information.

## BACKGROUND

Since 1968, the Ministry of Health has managed health care benefits for Ontario residents using a family-based registration system—the Ontario Health Insurance Plan

(OHIP). The primary purpose of the OHIP system was to maintain information for the collection of health insurance premiums.

An OHIP number covered an entire family, with premiums often paid by employers. Information changed as people grew up, left home, switched jobs, married, divorced, raised families or retired. Consequently, medical histories could not be reliably traced to particular individuals. Therefore, the Ministry's ability to monitor health care usage and protect confidential medical information was limited. Shortcomings such as these forced the Ministry to change to an individual registration system, with all health care users assigned a unique personal number for life.

In 1986, the Policies and Priorities Board of Cabinet approved the replacement of the existing family-based system with an individual-based registration system.

Ontario was the last province to set up an individual registration system. The chart below compares the health cards issued by each province.

*Provincial Comparison of Health Cards*

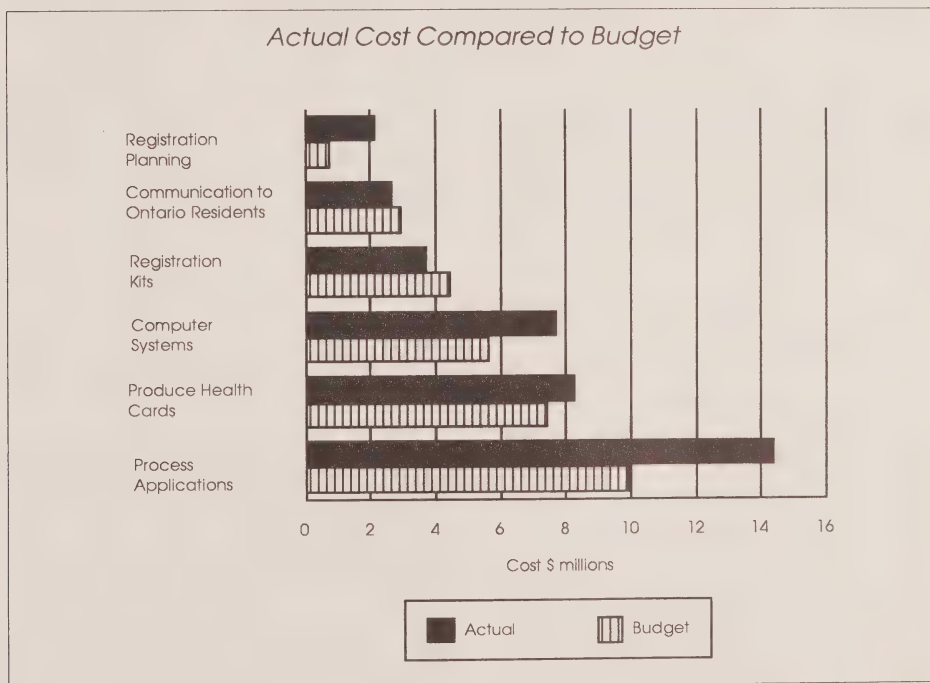
Province	Plastic Card	Magnetic Stripe on Back	Card Renewed Regularly	Name Printed on Card	Address Printed on Card	Birth Date Printed on Card
NFLD.				•		•
P.E.I.				•	•	•
N.S.				•	•	•
N.B.				•	•	•
QUE.	•		•	•		•
ONT.	•	•		•		
MAN.				•	•	•
SASK.	•	•	•	•		•
ALTA.			•	•		•
B.C.	•	•	•	•		•

In January 1989, Management Board of Cabinet approved the Ministry's \$97 million Information Technology Strategic Plan, which included the unique health number as the cornerstone for development to serve the Ontario health system well into the next century.

According to the strategic plan, future information technology projects would generate benefits of \$1.5 billion over the next ten years, with \$150 million attributed to the introduction of the new health card. The Ministry stated that the unprecedented accuracy and reliability of the registration information would greatly enhance its ability to plan for future health needs and tighten control over the fraudulent or

unintentional abuse of Ontario health benefits by non-residents.

In January 1990, Management Board of Cabinet approved the registration project at an estimated cost of \$31.5 million, with technology development representing \$5.7 million. Primarily, costs were for mailing, receiving and processing applications, and producing and distributing the new plastic health cards. In March 1991, the Ministry received approval for project cost increases of \$6 million from Management Board of Cabinet, owing to a higher error rate on the applications than originally expected. The chart below shows the budget for each registration activity and the amount spent on each activity.



The registration of ten million persons was the largest in North America and the Ministry wanted to ensure speedy registration and continuous health coverage. In the Ministry's bid to get the new system in place as quickly as possible, they intention-

ally limited eligibility and accuracy verification.

To compensate, the Ministry planned to identify ineligible and duplicate cardholders soon after registration. These post-

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registration controls were essential to enhance accountability and to secure the Ministry's investment in the registration system.

Every resident of Ontario can receive Ontario health coverage. A resident is a person:

- legally entitled to remain in Canada;
- who makes a home in Ontario; and
- who is ordinarily present in Ontario.

The Ministry's initial goal was to assign a health number to 8.5 million of the over 10 million Ontario residents by December 1990 at an expected one-time cost of \$31.5 million. It expected to register all other Ontario residents in its on-going registration process.

The Ministry mailed applications in April 1990, and, by December 1990, despite a high application error rate, the Ministry had registered 8.8 million persons at a cost of less than \$4 per person. As of April 1992, 10.5 million people had been registered.

## COMMENTARY

### JUSTIFICATION

#### PROJECT ANALYSIS

Management Board requires formal justification of all information technology projects over \$10,000 to ensure that projects meet the Government's needs. The registration project required extensive analysis for two reasons: the project was costly, and many future Ministry of Health projects depended on successful registration.

We found that the Ministry had not adequately analyzed the costs and benefits of some project options. For example, the Ministry decided to assign a new health number to every registrant with an existing

OHIP number. However, a powerful incentive for the registration project was the elimination of invalid records existing on OHIP. We concluded the Ministry had not adequately evaluated the costs and benefits of its decision to rely on the former OHIP data as proof of eligibility for free Ontario health coverage.

The Ministry intends to use the information collected during health registration to improve management of health services in the province. We concluded that the Ministry did not adequately consider how they would maintain the accuracy of the information. For example, the Ministry did not evaluate the costs and benefits of alternatives for maintaining current address information.

Four provinces with half the Canadian population renew their health cards at least every four years and print the expiry dates on health cards. This process enables these provinces to update their resident records periodically. The Ontario Ministry of Health does not have a regular renewal process for most cardholders, whereas the Ministry of Transportation does have a renewal system for vehicle and driver registration. We concluded that the Ministry had not adequately evaluated the costs and benefits of setting up such a process.

Because Ontario Health Cards have no system of controls such as the ones used by major credit cards, Ontario hospitals and other health care providers have no way of determining the validity of an Ontario Health Card. For the health registration project, the Ministry did not investigate the cost of installing equipment in hospitals to check the validity of health cards. One Ministry official estimated it would cost less than \$5,000 to install and operate this device in a hospital. As well, other methods of card verification, such as hot card listing and telephone hot-lines, were not evaluated. We noted that at least one other province had such systems in place.



The Ontario Health Card is a plastic card with a magnetic stripe on the back, similar to a bank or credit card. The magnetic stripe contains basic personal information about the cardholder. We concluded the Ministry had not adequately analyzed the costs and benefits of other card alternatives, such as “smart cards” and photo identification cards. Also, the Ministry could not provide us with evidence that they had considered integrating the Ontario health card with any other provincial programs, such as driver licensing.

### **Expected Project Benefits**

The Ministry estimated that registration would result in operating and transfer payment savings of \$150 million over ten years. However, it could not provide us with evidence to support \$137 million of the projected savings.

The Ministry had expected the new health registration system to eliminate the need for over 200 Ontario hospitals to maintain separate registration functions, resulting in a ten-year savings of \$11.5 million. Although the system eliminated some administrative work, hospitals continue to maintain separate registration systems.

## **RELIABILITY**

Registration information is key to the Ministry’s plan to reshape Ontario’s universal health care system. Relevant, accurate and timely information is essential to successfully managing the Ministry’s annual \$5.6 billion Health Benefits Program. Planners and program managers require reliable information to monitor demographic and geographic trends, forecast health care needs, assess outcomes of care, and plan and monitor programs.

## **RELIANCE ON OHIP TO VERIFY ELIGIBILITY**

The Ministry identified the control of fraudulent and other abuse of provincial health services as a major benefit of the new registration system. Benefits, however, were lost by compressing the registration period into ten weeks and postponing many verification procedures until after card distribution.

The initial registration process registered approximately nine million Ontario residents. During this phase, the Ministry relied primarily on the OHIP data to verify eligibility. Applicants who provided a current OHIP number and matching surname received a health number without additional documentation, such as proof of residency.

Consequently, individuals who possessed a valid OHIP number but no longer qualified for health care could apply for and receive a health number. Similarly, ineligible individuals who received OHIP coverage through fraudulent means qualified for a new health card.

The Ministry acknowledged that it was almost impossible to detect cases of intentional fraud without pre-registration controls.

In 1987, we reported there were almost 25 million records on OHIP. Because of this, we question the reliability of the data and its suitability as a base for the new health card system.

## **REGISTRATION INFORMATION**

Performing geographical health care analysis was a feasible benefit of the new registration system. Addresses, therefore, are important to identify the location of a target group.

Canada Post estimates that one fifth of Ontario residents move every year. In the two years that the registration system has

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been functioning, over one third of the addresses may have become out of date, yet there was no formal mechanism in place to ensure that Ontario residents provide the Ministry with changes of address.

In the spring of 1992, the Ministry began a public awareness program directed at patients to promote the updating of addresses. The responsibility for updating registration information still belongs to the individual.

We also noted that the Ministry used a commercial software package to verify addresses during initial registration, but the same package was not used for the ongoing registration process. Although the card manufacturer notified the Ministry when they encountered problems with addresses, the Ministry never corrected the registration information.

The Ministry also lacked an ongoing means of identifying those individuals who had died, other than notification by the family. Negotiations with the Registrar General for a one-time update of deaths in the province were completed in April 1992.

As the Ministry had not yet developed a regular process to update registration information, the ability of the new system to accurately portray the use of health care services in the province is limited.

### **Duplicate Registrations**

The registration system is the base for building a history of medical services for individuals. Duplicate records compromise the integrity of this data. The Ministry estimated that over 100,000 duplicates exist, chiefly for three reasons:

- submission of two applications with different information by an individual;
- partial registrations resulting from a visit to a doctor or other service before obtaining a health card; and

- data entry errors.

Recording medical services under two separate health numbers compromises the integrity of an individual's personal history and impairs the Ministry's ability to monitor health care services.

### **Point-of-Service Registration**

In July 1991, the Ministry introduced a process to provide temporary 90-day coverage for those individuals who had not yet registered or received their cards. The Ministry required the doctor or service provider to complete a form with the patient's vital statistics. Although the patient signed a residency declaration, the information provided was inadequate to confirm eligibility and the patient had to visit a District Office to complete the application and provide proof of eligibility.

The Ministry did not analyze these partial registrations to determine the cost of this policy and whether ineligible individuals received medical services. Even though this form of registration ended in March 1992, over 350,000 individuals had registered by this process. Over half of these individuals did not subsequently complete the application to fulfil the Ministry's eligibility requirements.

### **Number of Registrants**

All Ontario residents are eligible to receive provincial health care. Statistics Canada estimated the population of Ontario as of January 1992 at approximately 10 million.

The Ministry, however, had registered 10.5 million individuals, a difference of 500,000 records.

Some of these excess records may be a result of duplication or deaths, but some may be the result of misrepresentation. The Ministry estimated there were 300,000 excess records due to duplicate registrations and unrecorded deaths.

In addition, the Ministry estimated in March 1992 that at least 100,000 eligible individuals had not yet registered for health coverage.

The Ministry, therefore, could not explain the difference of as many as 300,000 people. Every 700 cards issued to ineligible or non-qualified persons could potentially cost the Province \$1 million a year, based on average annual claims of \$1,400.

### Post-Registration Verification

The Ministry had planned a major post-audit after the processing of most initial registration applications. The objectives of this process were to ensure that:

- all applicants for Ontario health coverage were correctly and completely recorded;
- every eligible resident had one health number and received a card; and
- each person issued a health card met minimum eligibility criteria.

The Ministry identified 13 potential areas where problems might exist with registration information. Although registration began two years ago, the Ministry had addressed only one of those areas, namely duplicate records. Also, only three analysts were assigned to this review process, a ratio of one analyst for every 3.5 million registrants.

Errors are unavoidable and at some point, errors become too costly to identify and fix. The Ministry, however, had not determined an acceptable error rate. One other province established a target error rate of 2 per cent by conducting regular field investigations to verify eligibility. However, the Ministry was not planning to visit residents' homes and had not set a target error rate.

## MICROFILMING PROCEDURES

The *Freedom of Information and Protection of Privacy Act* requires ministries to retain documentation for one year. The Ministry's record retention procedures require original documentation to be stored for seven years.

In keeping with these policies, the Ministry decided to microfilm all original applications. This ensures the Ministry has a copy of the original application for the following purposes:

- to allow operators to check for possible duplicates;
- to investigate questionable applicants;
- to provide the client's signature in cases of fraud prosecution; and
- to satisfy government policies.

Microfilming of applications was not being consistently done. Our tests suggested that over one million records were not micro-filmed. Furthermore, some offices have destroyed original applications.

As a result, the Ministry has a limited ability to decide whether an application is fraudulent or a duplicate.

## VALID HEALTH CARDS

A key objective of the registration system was to tighten control over the fraudulent and unintentional abuse of Ontario health benefits by non-residents. A lost, stolen or replaced card could be used improperly for medical treatment. The Ministry issues replacement cards for information changes, but does not require the return of the original cards. Instead, the Ministry tells individuals to destroy the card by cutting it in half. The Ministry, therefore, cannot guarantee the destruction of the original card.

If an individual used an invalid card, the Ministry would reimburse the service provider for the medical care and notify the provider that the card was invalid. Pres-

ently, there is no means for a service provider to confirm the validity of a health card before offering medical service. The Ministry does not publish a listing of invalid or suspect health cards for service providers. Additionally, they do not provide a telephone call-in service for card verification. The Ministry also has not analyzed payments on invalid cards to figure out the extent of losses.

We concluded that the Ministry has paid insufficient attention to the control of invalid or suspect cards.

## SECURITY

The *Freedom of Information and Protection of Privacy Act* and the *Health Insurance Act* prohibit the disclosure of personal information. In addition, Management Board Directive 7-3 requires the protection of government information from disclosure, unauthorized use and loss.

The starting point for providing protection is to assign responsibility for the information to a program manager. Before protective controls can be designed, the program manager must assess the importance of the information. Significant factors to be considered include the confidentiality of the information and its strategic importance to government programs.

The registration data is key to the Ministry's long-term strategy to reshape the health care system. The data includes personal and confidential information about all registrants used to decide eligibility for provincially funded health care. However, prior to April 1, 1992, the Ministry had neither assigned responsibility for the information to a program manager nor assessed the importance of the information. Accordingly, the Ministry had not defined

access rules and ensured that existing controls over the data were adequate to protect the confidentiality and integrity of the information, as required by Directive 7-3.

## ACCESS TO REGISTRATION INFORMATION

We determined that over 12,000 computer users could potentially access and change registration information without authorization. These included:

- over 12,000 Toronto data centre users who could read an unprotected password for a powerful user code on the Kingston data centre and access registration information;
- 54 users who could circumvent existing access controls; and
- 15 former employees who had worked on registration.

We also determined that a weakness in the implementation of the security software would allow any of the almost 1,800 main-frame users to disable access controls entirely.

Contrary to the Ministry's policies, passwords were visible whenever a user changed passwords. Most software packages do not allow passwords to appear on the screen because of the danger that an unauthorized person could see a password and use it to enter the application.

The Ministry has identified several applications for registration information that would require moving the data to personal computers or providing copies of the data to other program areas. The nature of these applications and the extent to which they have copies of registration data was not defined. Also, the Ministry has not assigned accountability for the integrity and confidentiality of the information copied.





# RESPONSE

The Deputy Minister of Health responded to our report on August 31:

*The introduction of a new method of registration for the Ontario health care system was a major undertaking which presented the Ministry with many challenges. Not least of these was ensuring the continuity of universal health care coverage to Ontario's population at the same time as we sought to alter fundamentally the system of registration. Unlike the family-based registration of OHIP where, according to the 1987 Provincial Auditor's report, up to 25 million participants were identified on the system, the Ministry now has 10.5 million individuals registered for health insurance in Ontario.*

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*The Ministry accomplished many things during the initial registration project. First and foremost, new Health Cards and Numbers were issued to all residents of Ontario. To protect the confidentiality of health information, new legislation, the Health Cards and Numbers Control Act, 1991, was enacted to prohibit the collection of the Health Number for purposes unrelated to the provision of health services. At the same time, the Ministry developed new registration computer systems, and retrofitted existing payment systems to utilize the Health Number.*

*The initial registration effort was a major first step. Since its completion, the Ministry has acted to build on this achievement. Major initiatives have been:*

- *the creation of a Registration Program Branch to secure the investment in the registration system, and to maximize the efficiencies inherent in the individual Health Number;*
- *initiatives to improve existing registration and information processes e.g., newborn registration;*
- *the establishment of registration verification and control functions to ensure that access to Ontario's health care system is adequately safeguarded; and*
- *the introduction of a new Contract Management Office to limit the use of consulting dollars while maximizing the use of internal resources by all program areas in the Ministry.*

*These initiatives are based on the Ministry's experience and review of the Health Registration Project and I am encouraged to note that they also address the major observations contained in your report.*

## JUSTIFICATION

### PROJECT ANALYSIS

*The introduction of a new, individual registration system was based on extensive analysis by the Ministry. The Registration Project is part of an overall Information Technology Strategic Plan which was the culmination of approximately three years of preparation by the Ministry. In addition, extensive research and analysis of registration requirements, including comparisons with other provincial registration systems, was conducted between 1985 and 1989. Moreover, the requirements of all Ministry programs were reviewed and documented prior to the development of the new system. All of this background preparation figured in decisions that were taken when the Ministry received approval to develop the new system.*

*The initial registration process deliberately limited eligibility and data verification in the interest of timely registration. A valid OHIP number was accepted in lieu of other supporting documents such as birth certificates or immigration documents. Persons admitted to Canada for a limited period,*

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such as foreign students or workers, were required to submit documentation. A residential Ontario address was required from all applicants.

To complement this decision, the Ministry also decided to introduce an enhanced verification and control function with responsibility to audit the initial registration system and to take corrective action where warranted. Following on this initial audit, an ongoing function of monitoring and controlling access to Ontario health coverage was also planned.

A Registration Verification and Control Unit has been created with the mandate to verify both the data and eligibility of individuals who have been registered and the process used to register them.

The Ministry has undertaken several initiatives to improve the methods of updating the registration database. These include: improvements to the process for registering newborn babies, negotiation and implementation (effective August 22, 1992) of a direct electronic feed from the Registrar General to update the RPDB with information concerning deaths, information exchanges with other provinces to record interprovincial migration and participation in a National Change of Address Pilot project with Canada Post. Additional discussions have been initiated with provincial and federal officials to investigate access to databases such as driver licensing, Old Age Security and immigration. The conclusion of such arrangements will be designed to assist the Ministry with eligibility verification as well as information maintenance.

Cards issued to persons in Ontario temporarily, such as foreign students or workers, are given an expiry date and must be renewed. The decision not to issue cards with expiry dates to permanent Ontario residents was taken to allow the Ministry flexibility in determining a future card strategy. In particular, the introduction of a regular renewal cycle would entail a significant expense which the Ministry wishes to ensure would be accompanied by corresponding benefits. This strategy will be developed by the end of the current fiscal year.

The possibility of allowing hospitals and other health care providers to use equipment to determine the validity of Health Cards was considered by the Ministry. It was not included as a stand-alone application under the Health Registration Project for several reasons. These include issues related to appropriate levels of access and the protection of confidentiality, and the types of practices or locations where the use of such equipment would be most effective (e.g., service areas with large numbers of unfamiliar clients such as hospital emergency rooms or clinics as opposed to the stable patient-base that might characterize a general practitioner). Moreover, the decision to defer this application for consideration with other parts of the Ministry's strategic plan recognized that the technology and investment involved would provide the maximum benefits if it were applied to a variety of functions.

The Ministry considered a variety of options for the Health Card. A plastic card with a magnetic stripe was selected because basic identifying information could be recorded on the stripe at an acceptable cost, and the technology to use it is already widespread.

The use of SMART card technology was considered by the Ministry. This technology was not adopted for several reasons including the high cost of these cards; the technological infrastructure required to use them, and the need for additional study to determine the appropriate business functions to which such a technology could be applied. The Ministry is currently conducting a smart Card Pilot to assess the potential of targeted applications of this technology.

The use of a photo identification card was not adopted because of the increased cost and complexity that it would have added to the initial registration process. It would have required securing photo-

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graphs from 10 million Ontario residents and developing additional technological infrastructure to produce cards incorporating the photograph.

### **Expected Project Benefits**

The projections for cost savings attributable to the registration system are estimates derived from program areas. These were based on minimal projections, e.g., improved eligibility controls could save 1 per cent of claims payment (\$11 million annually). It was not anticipated that these benefits would accrue immediately on completion of registration, but that they would be gained over the course of ten years. Moreover, the full realization of the benefits of the new registration system depends on the implementation of other parts of the Information Technology Plan.

## **RELIABILITY**

### **RELIANCE ON OHIP TO VERIFY ELIGIBILITY**

The initial registration process deliberately limited eligibility and data verification in the interest of timely registration. To complement this decision, the ministry also decided to introduce an enhanced verification and control function with responsibility to audit the initial registration system and to take corrective action where warranted. Following on this initial audit, an ongoing function of monitoring and controlling access to Ontario health coverage was also planned.

A Registration Verification and Control Unit has been created with the mandate to verify both the data and eligibility of individuals that have been registered and the process used to register them. During fiscal 92/93, the unit has several major priorities including: identification and resolution of duplicate registration; analyzing and monitoring card utilization, particularly where multiple cards have been issued; monitoring out-of-country services and border/vacation locations to identify and control eligibility and validating RPDB addresses. Matching the Health Registration Database to other major government databases is also being pursued as a means of determining cases where eligibility requires additional investigation. These systems are being developed in conformity with Freedom of Information and Protection of Privacy policies and guidelines.

In addressing these priorities, the unit is being assisted by a temporary analysis unit which has been assigned the task of assessing the areas of investigation which will yield maximum results. Initial priorities which have been established for this unit include: determining the risk associated with the possible submission of claims after the date of a person's death; developing methods of determining non-residents who may have registered; identifying persons who were eligible when they registered but have subsequently failed to maintain Ontario residency; identifying instances where claims from outside Canada are submitted for temporary residents such as foreign workers or students; developing methods to monitor card utilization, especially where multiple replacement cards have been issued; monitoring payments made in good faith, determining the level of risk associated with duplicate registrations and examining the integrity of date of birth information on the database.

Eligibility is always tested as part of the registration process. In the regular registration process, individuals are required to submit supporting documents such as a Canadian birth certificate or an immigration document. During the initial Health Number registration a valid OHIP number was accepted in lieu of these documents for persons who were permanent residents such as Canadian citizens or landed immigrants. This recognized that many individuals had already established their eligibility in applying for OHIP, and that to require new documents might impede the success of the registration effort. Temporary residents such as foreign workers or students were required to submit documents even if they were previously registered for OHIP. All applicants for a Health



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Number were required to provide a residential Ontario address before a Health Card was issued to them.

## **REGISTRATION INFORMATION**

Accurate data and reliable processes for updating it are crucial to the success of the new registration system. For this reason, Ministry created a Registration Program Branch in May 1992. The Branch has been assigned the mandate to secure the investment in the registration system and to maximize the efficiencies inherent in it.

Quality targets for the Registered Persons Database have been identified. Examples of such targets are: 0.5 per cent for deceased persons still on the file, an upper limit of 2 per cent in variation between the database and other population estimates and no more than 5 per cent incorrect addresses. These targets have been established on the basis of audit activities and review undertaken by the Ministry itself. Computer and manual processes to determine that the databases reflects these targets and to investigate and resolved anomalies are being developed.

The Ministry has also undertaken several initiatives to improve the methods of updating the registration database. These include: improvements to the process for registering newborn babies, negotiation and implementation (effective August 22, 1992) of a direct electronic feed from the Registrar General to update the RPDB with information concerning deaths, information exchanges with other provinces to record interprovincial migration and participation in a National Change of Address Pilot project with Canada Post. Additional discussions have been initiated with provincial and federal officials to investigate access to databases such as drivers licensing, Old Age Security and immigration. The combination of these initiatives will provide the Ministry with ongoing processes to maintain the reliability of registration information, including information required for eligibility verification, and reduce its reliance on voluntary reporting of changes. These systems will be developed in conformity with Freedom of Information and Protection of Privacy policies and guidelines.

The use of the first tape supplied by the Registrar General to update the registration database was implemented on August 22, 1992. The initial tape covered all deaths from January 1990 to June 1992. It will be supplemented with six additional monthly feeds. The frequency with which tapes are provided will be assessed and an agreement negotiated on the basis of the results obtained during this pilot period.

### **Duplicate Registrations**

The verification unit is already working with Ministry systems staff on a process to identify and eliminate an estimated 100,000 duplicate health numbers on the registration database. This represents a maximum of 50,000 individuals or 0.5 per cent of the registration database. The required computer program has been developed and is being tested. Implementation of this system is scheduled to take place before the end of Summer 1992. Systems to identify more difficult cases of duplication are scheduled to be implemented with investigation and resolution of cases by the end of fiscal 1992/93. Both systems will be implemented on an ongoing basis. Staffing arrangements are being made to increase the capacity of the verification unit to tackle this workload.

### **Point-of-Service Registration**

This process was introduced as a temporary measure to assist in the transition to Health Number billings. It was discontinued in March 1992.



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Under the process, a Health Card and Number was only issued to an individual if the second part of the form was completed to establish eligibility. Coverage was limited to 90 days.

Of the forms submitted through this process 60 per cent were matched to existing Health Numbers. Of the remainder, 47 per cent resulted in a completed registration through the submission of part 2 of the Registration Request Form. The total number of incomplete registrations was approximately 100,000.

### **Number of Registrants**

The Ministry has established an upper limit of 2 per cent as the target for the reliability of the registration database with other population estimates such as Statistics Canada. This target recognizes the fluidity of population movement and changes that will never allow for an exact match.

Several initiatives are already under way to correct the current disparity between RPDB and other Statistics Canada estimates. These include the use of an automated feed from the Registrar General to update the database with respect to deaths, and implementation of systems to identify duplicate registrations. These initiatives were being implemented during the summer and fall of 1992.

The Ministry will also use the outcome of these initiatives to analyse and determine the extent of any of inappropriate payment by Ministry programs such as Health Insurance or Drug Benefit.

The Ministry of Health does not have an official number of Ontario residents who have not received their Health Cards. It is impossible to determine at any given time what number of Ontario residents are unregistered. The population is not static and residents arrive and depart daily. There is also a group of residents who do not register for a Health Card until health care is required.

### **Post-Registration Verification**

The Ministry has established a Registration Verification and Control Unit with the mandate to verify both the data and eligibility of individuals who have been registered and the process used to register them. The unit has responsibility both for developing systems to identify areas requiring investigation, and for investigating and resolving individual cases.

During fiscal 1992/93, the unit has several major priorities including: identification and resolution of duplicate registration; analysing and monitoring card utilization, particularly where multiple cards have been issued; monitoring out-of-country services and border/vacation locations to identify and control eligibility and validating RPDB addresses.

In addressing these priorities, the unit is being assisted by a temporary analysis unit which has been assigned the task of assessing the areas of investigation which will yield maximum results.

Staffing arrangements are being made, through redeployment of existing resources, to increase the capacity of the verification unit to tackle the workload that will arise as initiatives are implemented. The analysts assigned to the unit are primarily responsible to develop systems and procedures utilizing the registration database to identify areas requiring investigation. Additional staff will be responsible for investigating and resolving individual cases. This complement will include field inspectors.

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## MICROFILMING PROCEDURES

*The Ministry is reviewing microfilming requirements with regard to factors such as the legal need for a copy of a signature, program managers' responsibilities to reduce unnecessary record collection and maintenance, the acceptability of electronic records, and the availability of alternative technologies. The Archives of Ontario has already been contacted for advice in these matters. Recommendations for a revised record retention schedule will be complete by the end of the current fiscal year. In the meantime, policies and procedures regarding microfilming are in place and all offices have been reminded of this requirement.*

*The destruction of original applications at some offices was a one-time occurrence and was rectified. A record retention schedule is in place for all registration applications.*

## VALID HEALTH CARDS

*The Ministry maintains an accurate record and count of all Health Cards that are issued. This includes both initial and replacement cards. Replacement cards are identified by an alphabetic version code which is recorded and required on claims submissions. The development of additional systems and procedures to monitor the use of cards for services is scheduled for the first quarter of 1993.*

*In many instances, replacement cards are issued because the original is reported as lost or stolen. In such instances, the individual is unable to return the card. Cards reported as lost or stolen are recorded as such on the registration database.*

*The possibility of allowing hospitals and other health care providers to use equipment to determine the validity of Health Cards was considered by the Ministry. It was not included as a stand-alone application under the Health Registration Project for several reasons. These include issues related to appropriate levels of access and the protection of confidentiality, and the types of practices or locations where the use of such equipment would be most effective (e.g., service areas with large numbers of unfamiliar clients such as hospital emergency rooms or clinics as opposed to the stable patient-base that might characterize a general practitioner). Moreover, the decision to defer this application for consideration with other parts of the Ministry's strategic plan recognized that the technology and investment involved would provide the maximum benefits if it were applied to a variety of functions.*

*The algorithm to determine that a number is a valid number is available to providers and is usually incorporated in billing software. A claim containing an invalid health number will not be paid.*

## SECURITY

*The Ministry has always placed the highest priority on protecting the confidentiality of personal information which it receives.*

*Registration information is collected and disclosed in a manner that is consistent with the provisions of the Freedom of Information and Protection of Privacy Act and the Health Insurance Act. The newly formed Registration Programs Branch has been assigned responsibility to ensure that existing standards are being met, and to propose additional policies and guidelines that may be required for the Registered Persons Database. A review of both systems and operational security will be completed and recommendations for improvements made by the end of the 1992/93 fiscal year.*

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*In the meantime standing security provisions are in place, including computer security software and operational security manual, procedures and training.*

## **ACCESS TO REGISTRATION INFORMATION**

*Only persons who require it to perform their job are provided with access to RPDB by the Ministry. This access is controlled by standard computer security processes and the Ministry maintains a master list of persons who have been given access.*

*The specific problems noted by the auditor have been corrected; however, the general issues that they raise will be addressed in the security review of RPDB.*

- *The password which could potentially be used by 12,000 Toronto data centre users was removed from the file in February 1992, and to ensure that the userid involved has not been compromised, the password to it has been changed. Furthermore, additional checks have been made for other hardcoded passwords at the Kingston Regional Computer Centre and in Toronto Development and Production Centres.*
- *The number of users who could circumvent existing access controls has been reduced to 34. This includes eight security people who are required to have full access to fulfil their security responsibilities. This review is continuing to identify the possibility for further reductions.*
- *All but 2 of the 15 userids have been identified. The two that have not been cancelled are for persons who are working in the Ministry.*

*The password for turning off the Resource Access Security facility has been changed from the default value to which it was previously set. In this respect, it is important to note more than one person is required to turn off RACF. In addition to knowing the password, a reply would also be required from the operations console.*

*A modification of screens to eliminate display of even the new password [when passwords are being changed] is being investigated. Changed passwords are only displayed on the screen when the action of changing the password is occurring. This prevents clerical error (keying mistakes).*

*[Responsibility for the integrity and confidentiality of information copied to personal computers or other program areas] has been assigned to the Registration Program Branch. Policies and guidelines will be developed as part of the security review.*



# Microcomputer Network

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There are more than 35,000 computer workstations in use in Ontario ministries. Two out of three are personal computers, and almost half are connected to a microcomputer network. Ministries typically use the networked microcomputers for end-user computing and office automation, which together account for one quarter of the more than \$450 million spent in fiscal 1990/91 on information technology.

We felt that microcomputer networks should be reviewed because of the increasing significance of this technology, and we chose the Ministry of Housing's network for audit because it is one of the largest in the Ontario government.

In June 1991, the Ministry of Housing received approval for its five-year office automation strategy, entitled *Information Management Strategic Plan*. This strategic plan included a \$4.9 million project to install microcomputer networks across the Ministry. By the end of 1991, the Ministry had spent \$1.2 million on microcomputer networks.

The objectives of our audit were to assess whether:

- the business case sufficiently proved that the selected solution would be the most workable and cost-effective choice from among alternatives; and
- system resources were adequately secured from unauthorized access and changes or unexpected interruptions.

We obtained information through interviews, observation and the review of available documentation. We limited our

review to the local area network at the Ministry's head office. We did not review other Ministry offices located off these premises nor Ministry of Municipal Affairs offices with access to the network.

## CONCLUSIONS AND FINDINGS

### JUSTIFICATION

The Ministry did not conduct appropriate analysis to prove the network solution as the most workable and cost-effective choice from among existing and alternative solutions. Given the inappropriateness of the Ministry's analysis, we could not conclude on the cost effectiveness of the Ministry's purchase and implementation of the network. In particular, we noted that:

- a separate business case for the purchase of the network was not provided to Management Board as required;
- alternative network software products were not thoroughly analyzed by the Ministry;
- the Ministry's strategic plan omitted some necessary expenses; and
- the Ministry purchased a non-Canadian electronic mail product, although its data suggested that a Canadian product was more suitable to its needs and less expensive.

### SECURITY

Since the Ministry did not provide us with timely and direct access to the information necessary to complete the full scope of our audit program, we could not conclude



whether the Ministry had adequately secured data and software from unauthorized access or change. Still, we did find that:

- user accounts without passwords could access the network, and could read and change personal information about private citizens and Ministry employees; and
- the Ministry had not established, documented or communicated security policies and standards to employees.

## BACKGROUND

A microcomputer network consists of several microcomputers linked by cables and communications software within a geographically small area such as an office building. These networks allow multiple users to share data, files and programs within the system. Applications can include electronic communications such as mail and messaging, office administration functions such as word processing, and the exchange and sharing of corporate and confidential information.

Microcomputer networks are a strategic component of the Ministry of Housing's technology architecture. The Ministry has nearly 1,000 networked personal computers, the third largest total in the government. The total number of personal computers has grown from 1 in 1983 to over 1,500 in 1992.

In the fall of 1985, the Ministry began to investigate the use of computer networks to enhance service delivery. In 1987, networks were installed at seven Ministry test sites, at a cost of nearly \$400,000, to evaluate the impact of network systems on the workplace, and to establish guidelines for future network implementations. In June 1991, the Ministry's approved *Information Management Strategic Plan* forecast nearly \$5 million for network implementation. This

plan called for networks in each work group within the Ministry and office automation software for electronic mail and scheduling.

The Ministry of Housing's Information Technology Services Branch supports stand-alone microcomputers and networks that additionally can communicate with other microcomputers, networks or the mainframe. These systems support the head office, regional offices and agency offices.

For instance, over 20 Local Housing Authorities of the Ontario Housing Corporation, located throughout the province, are able to communicate and share information with the Ministry's head office. The Ministry provides support to applicants for assistance to such programs as the Federal-Provincial and Municipal Non-Profit Housing Program, Ontario Home Renewal Program, Ontario Community Housing Assistance, Tenant Placement, Social Housing Development Assistance, and Rent Supplement.

## COMMENTARY JUSTIFICATION

In 1991, Management Board approved the Ministry's entire information management strategic plan — the \$4.9 million network was one of 39 identified strategic projects. The Ministry did not provide a separate business case to Management Board for the purchase of networks. Directives 7-1 and 7-2 require the development of a business case and Management Board's approval of the costs and benefits for information technology projects that cost more than \$500,000 over four years.

Our review shows that alternatives to the selected network were not thoroughly analyzed by the Ministry. For example, it

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did not evaluate the costs associated with each component of the network. Instead, the Ministry relied on staff's previous knowledge and use of these products. Such an approach is not sufficient for product comparison, and violates the requirements of Management Board Directive 1-8. This Directive requires management to consider the broadest range of options, and to include costs for all practical alternatives in a submission to Management Board. This was not done.

The calculation of total estimated costs did not include all costs necessary to meet the objectives of the network project, contrary to Directive 7-1. The Directive requires management to include all costs necessary to meet defined project objectives. The Ministry did not include software installation costs, system analysis time, conversion of existing systems and programming resources. As well, some benefits attributed to a network were questionable, such as citing the reduction of paper note pads as a productivity improvement.

The Ministry conducted a study of electronic mail products available in the marketplace. It evaluated and scored these products against a pre-defined, comprehensive set of mandatory criteria. We found that the scores granted to the products were not always consistent with the underlying data presented in the same report.

Furthermore, none of the products evaluated met all mandatory requirements, and the Ministry's own data suggested that a Canadian product better met Ministry requirements, and cost less to purchase. This Canadian product was also used in other ministries, and should have been a preferred selection according to Directive 2-1.

## SECURITY

Under various programs, the Ministry maintains and processes confidential

information about Ontarians, such as their name, date of birth, financial status, spousal and dependent status, and grant status.

The *Freedom of Information and Protection of Privacy Act* and Directive 7-3 require ministries to safeguard confidential information. Security measures must ensure that individuals are protected from unauthorized use and disclosure of personal information.

Proper implementation of control features within the network software would be an effective first step in ensuring the confidentiality of the private data maintained by the Ministry. However, we were able to access the network with user accounts that did not need a password. Anyone with access to any of the almost 1,000 networked microcomputers in the Ministry of Housing or the Ministry of Municipal Affairs connected to the network could have logged in with such user accounts. With these user accounts, we could read private information about applicants to the Ontario Home Renewal Program for the Disabled, including financial information, financial and grant assessments made by the Ministry, and marital and dependant-related data. In addition, we gained similar information about applicants to the Non-Profit Tracking System and personal salary information for 50 Ministry employees.

The general availability of this information violated both Management Board Directive 7-3 and the *Freedom of Information and Protection of Individual Privacy Act*.

The Ministry had not established, documented, or communicated security policies and standards to employees. They informed Management Board that a security plan was to be developed by the end of 1991 consistent with Directive 7-3. As of February 1992, the Ministry did not have a draft of this plan, again a contravention of the Directive.

Without formal policies and standards, Ministry staff were not provided with adequate security guidance. For example, network administrators were never told to restart a user's microcomputer when helping with problems. By not doing so, they exposed their passwords to unauthorized individuals. Because of the lack of a secure procedure, we obtained the accounts and associated passwords for three privileged users. With these accounts, we could read or change anything on the system.

The Ministry did not make use of password administration policies or techniques provided by the operating system to im-

prove security. For instance, we noted over 500 user accounts that did not require password changes. It was possible that many of these user accounts still had their original assigned passwords.

In addition, the Ministry had not developed tools for tracking and measuring the reliability of the network. The Ministry had never quantified the cost of network outages. On the basis of industry averages, outages could cost the Ministry over \$1 million per year. Management must identify and track various errors. By tracking and controlling errors during operations, the Ministry could make improvements in service.



## RESPONSE

The Deputy Minister of Housing responded to our report on August 17:

### JUSTIFICATION

*As you pointed out in your report, Management Board of Cabinet had approved our Information Management Strategic Plan in 1991, including \$4.9 million for a microcomputer network. By the end of 1991, we had spent \$1.2 million. Prior to this approval, we did obtain Management Board approval for the implementation of LANs from 1987 to 1990.*

*Much of the recent expenditure was related to the consolidation of existing Local Area Networks into a Ministry-wide system. Business cases were prepared and approved for each element of this consolidation process.*

*Overall, we are of the view that we have complied with the spirit of the Management Board Directives.*

*We are confident our choice of a Local Area Network was the most cost effective and efficient choice of technology at the time the decision was made. As noted in your report, in the fall of 1985 we began to investigate alternative networking options and, in our opinion, a microcomputer Local Area Network was the best option. You should also note that this option has proven to be the trend both in the public and private sectors.*

*We attempted to include all quantifiable costs for the implementation of the Local Area Network in the Information Management Strategic Plan. The missing items listed in your report, "software installation costs, system analysis time, conversion of existing systems and programming resources", were opportunity costs which, we felt, did not represent additional costs to the Ministry and so were not included.*

*Although the Canadian product was less expensive, your report omits the fact that it failed to meet one of the mandatory requirements indicated in our Request for Proposal for electronic mail soft-*

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ware. In our view, we adhered strictly to the terms set out in the Request For Proposal and our selection was appropriate and fair to all the vendors.

You should note that as a result of similar competitive processes, at least four other ministries have selected the same electronic mail software.

## SECURITY

We appreciate your comments on security. However, as previously noted, the LAN was being installed at the time of the audit, and this should be taken into account in the discussion of the deficiencies.

Limited access to a few Local Area Network functions is required by the operating system maintenance software. When these accounts were established with severely restricted access, it was deemed that passwords were unnecessary. As your audit pointed out, this access was not sufficiently restricted and has since been further restricted.

We agree that information systems security policies and procedures are important and we had intended to develop them by the end of 1991. Due to a number of factors, including budget constraints, the ongoing implementation of the LAN and unfilled staff positions, on December 16, 1991, we advised Management Board of Cabinet we would be unable to develop and implement security policies and procedures until 1993. This is still our intention. Notwithstanding, it should be noted that we have produced computer security information packages for all employees and the E-Mail is also being used as a communication tool for this purpose.

At the time of the audit, the Ministry was implementing a problem tracking system which provides detailed reporting of LAN-related problems. The system is a key feature of our Help Desk system and is now operational.



# Non-Profit Housing

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Since 1986, when the Province assumed responsibility for administering non-profit housing programs, some 38,000 of 46,600 unilaterally funded units have been approved for construction together with over 35,000 units which were cost shared with the federal government. The total capital cost of the 46,600 provincial units alone is projected to be \$5 billion. Annual operating subsidies will approach \$1 billion by 1995, when all 81,600 units are to be completed and operating. In addition, the most recent budget announced a further 20,000 units with an estimated annual operating subsidy of \$200 million on completion.

We assessed the adequacy of the Ministry of Housing's:

- controls over project selection and development; and
- controls over completed projects, including efforts to monitor costs, results, and compliance with program guidelines.

Our conclusions and findings are based primarily on our review of projects approved since 1986 in three of six regional offices (Central, Eastern and Southern). We visited projects in each of the three regions.

## CONCLUSIONS AND FINDINGS

### SELECTION AND APPROVAL OF HOUSING PROPOSALS

The review and approval of over 70,000 assisted housing units in five years was a significant and costly undertaking. The

task was made even more costly by pressures to meet inflexible annual deadlines and to cope with a real estate market which was booming through much of the late 1980s. Consequently, the controls in place to ensure projects were only built where needed and at a competitive cost were less than satisfactory, due primarily to the Ministry's need to expedite the approval process with fewer experienced staff than were required.

- Need and demand studies were not thorough, and so a number of projects were allocated to communities with high vacancy rates and little demand for "market rent" units. Filling vacant market rent units with "rent-geared-to-income" (RGI) tenants raises future subsidies over projections and may jeopardize the program's income integration objectives.
- Despite a significant decline in land prices and construction costs after 1989, the cost of projects approved for go-ahead in 1990 and 1991 continued to increase, particularly in Central Region.
- The practice of approving purchases of land and rental properties using "highest and best use" appraisal values was very costly. Projects were also made more costly by failing to examine recent land transactions before approving land values and by not using competitive procurement practices whenever possible.
- In the absence of competitive procurement practices, the allowable maximum unit price became a target price for developers rather than a ceiling, adding to development costs.

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However, the Ministry conducted satisfactory reviews of site plans before approval. As well, monthly on-site inspections ensured that projects were built according to approved plans and that progress payments to contractors were justified.

## COMPLETED PROJECTS IN OPERATION

The Ministry's controls were less than satisfactory to ensure that completed non-profit housing projects were managed in a cost-effective manner and in compliance with program objectives and guidelines.

- Operating agreements were not yet in place to clearly establish financial control and accountability between non-profit housing providers and the Ministry. Key aspects of the relationship, including ownership, tenant selection, and reporting and audit requirements, need formal agreement.
- Over 25 per cent of the projects we reviewed lacked approved operating budgets, either because budgets and audited financial statement information had been filed late, or because the Ministry had not yet reviewed them. Several had still not been filed.
- Controllable operating costs such as labour and administration were high, particularly in Central Region.
- Our visits to projects indicated that those groups had adequately verified income and determined eligibility for RGI tenants. However, multiple waiting lists and inconsistent placement criteria and referral practices make it unlikely that those in need of affordable housing will be treated consistently, equitably and efficiently.

## BACKGROUND

In 1964 when the federal government shifted responsibility for the production

and administration of public housing to the provincial governments, the Ontario Housing Corporation (OHC) was established to provide rent-geared-to-income accommodation to households in need.

OHC's first public housing projects provided affordable shelter but they often did so in high-density apartment blocks. However, in the early 1970s, both the federal and provincial governments recognized that developing socially and economically integrated housing was preferable to physically segregating the less well-off.

Consequently, the objective of assisted housing became to not only provide decent, affordable housing, but also to avoid such "ghettoization". This meant that public housing projects had to be built alongside private-sector housing, and that each project should be occupied by both market rent and RGI tenants.

With this in mind, the Canada Mortgage and Housing Corporation (CMHC) introduced two major programs in the early 1970s—the rent supplement program and the non-profit housing program.

The rent supplement program pays private sector landlords the difference between the monthly rent that an RGI tenant can afford and the actual rent. While rent supplements cost significantly less in government subsidies and address the affordability problem of tenants, they do not increase the supply of housing units.

The non-profit housing program was originally designed by CMHC to increase the supply of rental housing stock. Funding was provided for community-based groups to build, own, and manage buildings having 25 to 40 per cent of tenants with low incomes. Three types of community groups were eligible—municipal non-profit housing corporations, private non-profit organizations such as church or ethnocultural organizations, and co-opera-

tive non-profit groups formed by private citizens.

In 1986, administrative responsibility for approving and monitoring the projects was transferred to the provincial level with CMHC paying 60 per cent of the cost of housing the most needy tenants. Non-profit housing then became a very significant component of the Province's broader *Assured Housing Strategy*.

In 1988, when national vacancy rates in private sector multiple unit buildings across Canada almost doubled, CMHC began to significantly cut back on its commitment to building additional non-profit rental units.

Although the national vacancy rate had increased significantly by 1988, in Ontario there were still communities—especially in the Metropolitan Toronto area—where vacancy rates were quite low. The Province was also aware that the private sector was not developing rental properties.

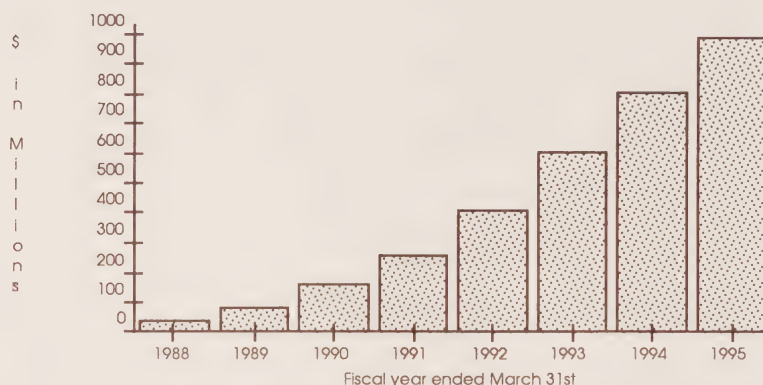
Accordingly, as the federal government eased off its commitment to build more non-profit housing units in 1988, the Province initiated a number of unilateral programs for which it would provide 100 per cent funding. By December 31, 1988, the Province had announced unilateral

funding for 36,600 units under three major non-profit housing programs. In 1991, funding for another 10,000 units was announced.

As of December 31, 1991, project submissions for about 38,000 of these 46,600 units had been approved together with some 35,000 federal/provincial units. The majority of the 46,600 provincial units will be constructed in fiscal years ending March 31, 1993 and 1994 with total capital costs approximating \$5 billion. Of these costs, about \$1.15 billion is being financed by 18- to 20-year interest-only mortgages issued from funds borrowed from the Canada Pension Plan. The remainder are being financed by 35-year mortgages with private sector lenders, guaranteed by the Province.

Along with the monthly mortgage payments, there are a number of major operating expenses such as utilities, property taxes, building maintenance and tenant administration. In total, the average monthly carrying cost per rental unit is substantially greater than the rent received from both market rent and RGI tenants, resulting in an average annual subsidy per unit of about \$12,500 (\$15,000 in Metropolitan Toronto). By 1995 when over 81,000 units are completed, total provincial subsidy costs will approach \$1 billion annually as can be seen from the following chart.

## Provincial Subsidy Costs



The above costs do not include the costs of OHC's housing operations which totalled almost \$500 million in 1991 (about one half was paid for by the federal government).

## COMMENTARY

### SELECTION AND APPROVAL OF HOUSING PROPOSALS

Community-based groups can apply to the Ministry of Housing for sponsorship of a non-profit housing project. Applicants can propose to purchase or lease existing buildings, or construct new ones. A limited number of housing units is allocated to each region of the province, and the Ministry reviews applications. Applications must include need and demand justifications, a targeting plan for serving tenants of varying income groups, the suitability of potential sites, and relative cost effectiveness based on estimated capital costs. If implemented effectively, these controls

would ensure that non-profit housing would be built where it is most needed, in the most cost-effective manner possible.

### EXPEDITED APPROVAL PROCESS

Staff in the three regions we examined faced significant pressure to approve federal/provincial projects by December 31 each year. After that date, federal funds for that fiscal year would lapse. Staff usually had four months between the time they learned of the number of units allocated under the federal/provincial program and the December 31 deadline for commitment of funds. Regional staff were instructed to commit as many units as possible in that time period in order not to lose any federal allocation to the province. As well, staff were under pressure to deliver the significant and increasing number of new units unilaterally funded by the Province since 1988. As a result, projects have been hurriedly approved to meet commitments.

While the program has grown significantly since 1988, resources allocated to the proper review and approval of projects have not increased proportionately. The situation was especially serious in Central



Region, which was required to deliver many large and complex projects with few experienced staff. One result of this pressure on Ministry staff is that thorough needs analyses were not being done. Most applications we reviewed relied solely on waiting lists from local housing authorities and left out other pertinent aspects such as future development plans, the vacancy rates and likely demand for market rent units in the area. In fact, since 1988 the Ministry did not require any need and demand studies for projects in communities with vacancy rates below 1 per cent.

Consequently, project selection often depended more on other selection criteria such as the availability of suitable land and the readiness of the sponsoring group to proceed. Despite a fair share model intended to ensure that federal/provincial projects were only built in areas of greatest need, this model was not adhered to, and some areas received significantly more units than vacancy rates dictated. For example, over the last five years, units were over-allocated in the Oshawa region by 180 per cent, in the Kitchener region by 39 per cent and in the St. Catharines/Niagara region by 15 per cent. All three areas had higher than average vacancy rates in both the local market and in non-profit housing projects we examined.

For 30 projects we examined that had filed occupancy data for their latest year, the average monthly vacancy rate was a relatively high 6 per cent. Southern region projects had the highest average vacancy rate at 10 per cent.

Proper need and demand studies should have addressed the need for, and availability of, market rent units, not just rent-geared-to-income units.

## VACANT UNITS AND INCOME INTEGRATION

One key objective of the program is to achieve a mix of both subsidized and market rent households within each project in order to provide economic and social integration and to prevent community resistance and a "ghettoization" mentality. However, our review indicated that projects in all three regions had difficulty competing with the local private rental market and, as a result, could not meet their approved targets for the designated number of market rent units. In order to fill vacancies created by this lack of demand for market rent units, most projects had filled these units with rent-geared-to-income tenants. On average, about 16 per cent of market rent units were either vacant or occupied by RGI tenants throughout the year in projects we examined.

In fact, the average income mix in completed projects is closer to 75 per cent RGI tenants. In a sample of 30 projects the proportion of RGI tenants varied significantly among regions: 62 per cent in Central, 84 per cent for Eastern, and 77 per cent for Southern.

This requires higher levels of subsidies than were originally approved and threatens the program's income integration objectives.

## CONTROL OVER DEVELOPMENT COSTS

### Expected Decline in Costs Not Realized

In assessing the effectiveness of Ministry procedures to ensure that costs were kept under control, we recognized that land and construction costs were atypically high during the housing boom from 1987 to 1989 and, accordingly, certain costs could have

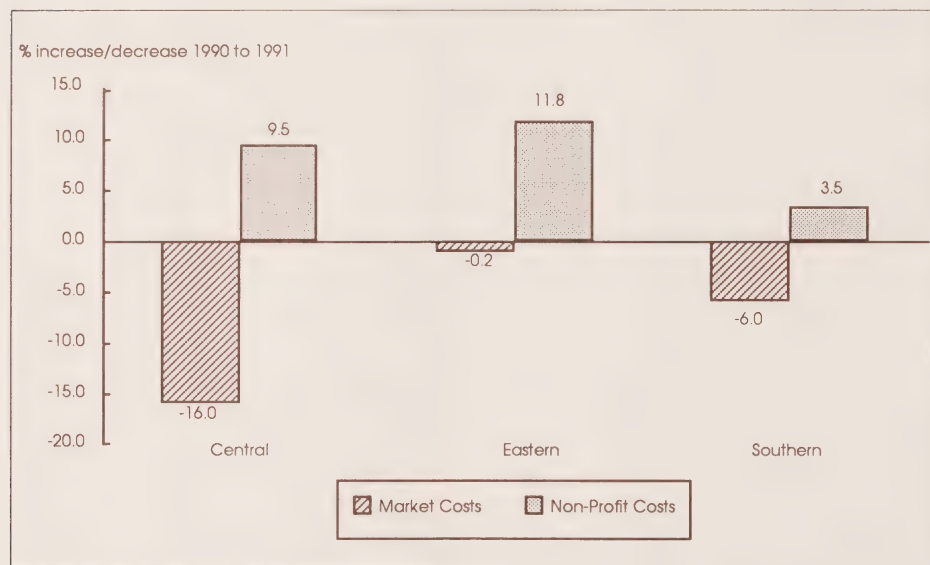
been beyond the Ministry's control. However, once the 1987-1989 boom was over, land prices and construction costs began to decrease throughout Ontario. This was particularly evident in Metropolitan Toronto where, according to a Ministry study, an 800 square-foot two-bedroom apartment that cost \$156,000 in 1989 could be built for less than \$106,000 in 1991, including a 20 per cent profit for the developer.

Accordingly, our review was concentrated on those projects that were approved during 1990 and 1991 to see whether the decline in costs after 1989 was reflected in Ministry projects. Specifically, since a non-profit group could not buy the land nor commit to construction contracts until the Ministry had approved the project, we expected that lower land prices and a more

competitive construction environment would be reflected in lower per unit costs.

However, we calculated the average cost of a sample of 12 projects approved in 1990 and 1991 in Metropolitan Toronto to be \$158,000 per two-bedroom equivalent units, even higher than the prices at the peak of the housing boom.

We also performed an analysis of all those projects approved in 1990 and 1991 in the three regions we visited. In these regions, the Ministry approved 241 projects encompassing 15,621 two-bedroom equivalent rental units with projected costs totalling \$1.86 billion. Using Statistics Canada's new housing price index (including building and land costs, but excluding luxury condominiums) by region as the market benchmark, our comparative analysis indicated the following:



Even if the costs of projects approved in 1990 were comparable to market costs, the projects approved in 1991 totalling \$1.16 billion would have cost over \$200 million less had approved costs dropped in line with market prices.

Since the acquisition of existing rental properties from the private sector is less costly than new construction, this option was allowed in project proposals. We noted that the trend of declining prices for new construction in 1990 and 1991 also occurred in resale rental properties. For

instance, at the peak of the market in 1989, rental apartment buildings in Metropolitan Toronto were selling at an average price of \$70,000 per unit. A survey conducted for the Ministry showed that the average Toronto rental unit re-sale price had dropped to \$51,000 in 1991.

Given such declines we reviewed those buildings that had been approved for acquisition in 1990 and 1991 to see if the proposed prices to be paid reflected the decline in market prices.

The Ministry approved the purchase of 127 two-bedroom equivalent units (excluding those for special-needs tenants and those involving rehabilitation or construction) in the three regions and paid an average cost of \$140,000 per unit. This was substantially higher than the going market rate.

In an attempt to see why the cost of non-profit rental units was high, we reviewed a cross section of 40 completed projects in these three regions. Several reasons were apparent from this review.

#### **Highest and Best Use Appraisal Value**

One reason for the cost being higher than the going rate in the marketplace was the Ministry approving real estate purchases at the "highest and best use" price. For instance:

- One rental apartment building which was rejected by the municipality for conversion to condominiums was subsequently offered for sale as a non-profit project. The highest and best use appraisal assumed that the building could be converted to a condominium, which resulted in the Ministry paying \$1.5 million more than appraised market value.
- Another building with an appraised market value of \$5.7 million was acquired for \$7.9 million. The highest and best use price was based on a municipal zoning provision which

allowed for intensification for social housing projects. To intensify the site, two additional stories would need to be added, but this would have been neither structurally sound nor economically viable. Yet the price paid assumed these two stories could be added. Even the Ministry appraiser stated that the Ministry should only pay the price associated with the private market density, as this is what the typical buyer would pay.

Highest and best use values sometimes ignored recent market transactions. We noted a few cases where parcels of land were purchased and then re-sold shortly afterward to the non-profit group at a significant profit. In fact, in two cases the land was purchased and quickly re-sold with profits amounting to \$135,000 and \$265,000 respectively.

On another project, a non-profit group paid \$2.85 million for less than two acres of land based on both an outside and a Ministry appraisal, yet the land had been purchased two weeks earlier by a related sponsoring group for \$250,000 per acre. This indicates that the sponsoring group realized a \$2.3 million profit. We conducted a title search of similar land in the surrounding area, including an adjacent parcel of land, and noted all previous recent sales were under \$300,000 per acre.

#### **Competitive Procurement Practices**

During the boom years, it was difficult to secure suitable sites for social housing, particularly in large urban centres such as Metropolitan Toronto. Developers had more profitable uses for their land and non-profit groups often could not control how the developers chose to make land available.

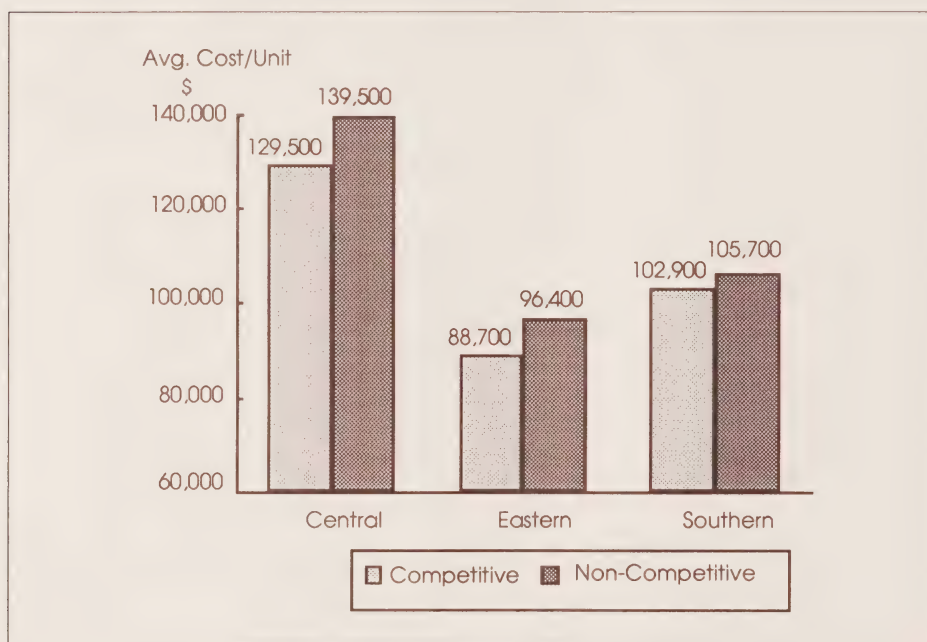
However, in 1990 many developers who had speculated on the housing and condominium boom up to 1989 were left holding land and/or completed buildings that they

could not sell. As a result, many developers submitted their projects for non-profit housing. With the developers being squeezed by interest and the other carrying costs, the climate was ripe for the Ministry and project sponsors to get very competitive prices from competing developers.

Accordingly, we expected that competitive procurement practices used in the building industry such as public, invitational and pre-qualification tenders would have been fully utilized. However, we noted that to accelerate the process the Ministry and

groups often negotiated with those developers who submitted proposals rather than providing an equal opportunity to all qualified developers.

To assess the impact of this approach we converted all units to two-bedroom equivalents and compared the average price of 8,156 units acquired in the three regions in 1990 and 1991 under non-competitive methods to the 7,468 units acquired through some competitive process in the same period. Our analysis indicated the following:



If all three regions had been able to obtain their non-competitively acquired projects at unit prices comparable to those acquired competitively, the capital cost savings would have been approximately \$64 million.

In investigating the reason for the relatively better success of Southern Region in negotiating competitive prices, we noted they

were the only region to use a computerized database to track market construction prices accepted by developers. This database proved to be a valuable negotiating tool when dealing with developers.

#### **MUP Not Adjusted When Costs Declined**

The maximum unit price (MUP) concept was developed by CMHC as a means of



allowing non-profit housing sponsors some delegation and discretion in project design while maintaining some control over costs. We agree that the concept has merit as long as separate MUPs are established for various areas of the province and these are periodically adjusted to reflect changes in local land and construction costs.

While MUPs were established in conjunction with CMHC for each area, we were concerned that adjustments to MUP were made when market prices were going up but not when prices were declining. For instance, MUP was increased three times during 1989 to reflect adjusted prices during the housing boom, but not when prices were declining in 1990 and 1991.

We felt this was necessary as many project sponsors and developers saw MUP as the target price to build to. In fact, one regional manager stated that many developers questioned whether the Ministry would challenge proposed prices which were less than MUP.

The Ministry's position was that MUP is the maximum price only and that cost savings would be achieved through effective negotiations.

Ministry data showed that, province-wide, 1991 federal/provincial projects were approved at between 94 per cent (Central) and 99 per cent (Eastern) of MUP. However, as stated earlier, prices have dropped much more than 6 per cent since 1989.

Accordingly, we continued to believe that, in the absence of more competitive approaches to project selection, many project sponsors and developers viewed MUP as the target price. We recommended that MUPs be adjusted downward to reflect significant decreases in market prices and that more competitive approaches to selection be followed wherever feasible.

## **Other Reasons for High Development Costs**

Several other reasons for high development costs were apparent from the sample of projects we examined including: purchasing land before thorough studies of contamination and cleanup costs had been done; paying development consultants a fee based on the cost of the project rather than the services to be provided; and delays and requirements imposed by local communities.

## **Controls during Construction**

For most projects we reviewed in the three regions visited, the Ministry's technical services staff had adequately reviewed the site drawings to ensure that proposed projects were in compliance with Ontario building codes and Ministry standards for non-profit housing before approving the project.

Ministry inspectors are required to make periodic site visits to ensure that a project is being constructed according to the approved plans, and the terms of the contract. Inspectors are also required to complete construction inspection reports to document project status and any problems encountered.

For most projects, we found that inspectors visited the construction site at least monthly. While this was confirmed by reviewing the Ministry's copy of the site meeting minutes prepared by the sponsoring group's architect, we noted that inspectors in the Central and Southern Regions seldom completed the required inspection reports.

For the three regions reviewed, we found that the progress draw billings submitted by the contractor were being satisfactorily verified through monthly on-site inspections by all parties involved in the

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project and that all change orders were properly reviewed and approved.

## COMPLETED PROJECTS IN OPERATION

As of December 31, 1991, there were about 41,000 affordable housing units completed under the various post-1985 non-profit housing programs (27,500 under the federal/provincial program; 13,500 under the various provincial programs).

To assess the Ministry's control over completed projects, including efforts to monitor costs and compliance with program guidelines, we reviewed 60 projects which had been in operation for at least 18 months. Of these 60 projects (30 from Central Region; 15 from Eastern Region; 15 from Southern Region), 50 were completed in 1988 and 1989. We visited 20 of those projects.

## ESTABLISHING FINANCIAL CONTROL AND ACCOUNTABILITY

Operating agreements are an important means of formally and clearly establishing the accountability between the Ministry and non-profit housing groups. They are essential to protect the interests of both taxpayers and tenants and to help ensure that program objectives are met. Consequently, the Global Operating Agreement between CMHC and the Ministry requires that all jointly funded projects have a signed operating agreement in place with the non-profit group sponsoring the project. Such agreements cover a variety of important administrative requirements including ownership and sale of assets, tenant selection, and budget and reporting expectations.

While the Ministry has a similar requirement for projects funded unilaterally by the Province, the Ministry had not entered into operating agreements with any of its unilateral projects or with any co-operative

housing groups. In fact, of 60 projects examined, 36 did not have operating agreements in place. The 24 projects with operating agreements were all projects under the federal/provincial program. However, 13 of the federal/provincial projects managed by co-operative housing groups had no operating agreement, in contravention of the Global Operating Agreement with CMHC.

Ministry officials informed us that operating agreements were still being developed for the provincial programs to overcome disagreements with some specific terms of the standard agreements. In the meantime, non-profit groups were required to sign a memorandum of understanding indicating that they would sign an operating agreement when available. Further, co-operative housing groups disagreed with some terms of the draft operating agreements even for the federal/provincial program and thus had not signed any agreements.

Also, the Ministry had committed to enter into special operating agreements with large municipal non-profit housing providers. These agreements were intended to establish accountability while recognizing the capabilities and sophistication of these major providers, thereby permitting somewhat greater autonomy in their delivery of the programs. However, these agreements had not yet been finalized.

The lack of operating agreements for provincial projects was a serious concern given that almost four years have passed since their introduction. Additionally, we were concerned that the "memorandum of understanding" may not sufficiently protect the Province's investment or the interests of taxpayers and tenants.

Although non-profit groups were expected to file annual budgets and audited financial statements for review and approval by the Ministry's Housing Administrators, we

found that many had either not filed these on a timely basis or the Housing Administrators had not yet reviewed the information filed. This has not only weakened financial control of the program but also has caused unnecessary expenditures where untimely reviews or approvals meant that justifiable rent increases could not be made until the following year.

### DETAILED COST ANALYSIS

We noted that housing administrators in Southern and Eastern Regions reviewed unit expenditures by cost category when reviewing their project budgets. This breakdown enabled them to compare unit costs among projects and with the guidelines suggested by the Ministry. In Central region, however, project costs had not been broken down into unit costs for comparison or analysis purposes in files we examined. For larger non-profit groups with more than one project, financial statements submitted by project management did not even provide costs on an individual project basis.

To assess the reasonableness of unit operating costs we conservatively compared a representative sample of 45 projects in the three regions to average private sector rental operating costs in Toronto in 1991. We also examined a sample of nine Toronto projects. We excluded the less controllable operating costs such as property taxes and insurance from our analysis. Similarly, utility costs were excluded as these costs are not comparable because they are not levied on the same basis by all projects.

Comparing only the more controllable costs indicates that the average controllable cost of the 45 non-profit projects was \$210 per unit per month, 102 per cent higher than for Toronto private rental accommodation of \$104. Costs in Central Region were particularly high, due mostly to projects in Toronto. Specifically, nine Toronto projects representing 738 two-bedroom equivalent units had average monthly operating costs of \$265, over two and one-half times that of Toronto private rental operating costs.

#### Monthly Controllable Operating Costs Per Unit

	Non-Profit by Region			Toronto Private Rental	Toronto Sample Projects
	Central	Eastern	Southern		
Labour & Related	\$ 50	\$ 27	\$ 22	\$ 23	\$ 72
Materials & Services	48	56	48	45	63
Vacancy/Bad Debt Loss	7	4	6	2	14
Administration	66	59	49	30	69
Contingency/Misc.	9	2	9	4	10
Replacement Reserve	<u>50</u>	<u>38</u>	<u>42</u>	<u>0</u>	<u>37</u>
TOTAL	<u>\$230</u>	<u>\$186</u>	<u>\$176</u>	<u>\$104</u>	<u>\$265</u>



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The most significant differences in cost relate to replacement reserves, administrative costs, and labour and related costs. These costs could be reduced by:

- basing replacement reserves on the estimated timing and costs of repairs and replacements of capital items such as roofs and appliances rather than on a flat percentage of the total capital cost of a project;
- basing administrative costs on the number and mix of units rather than a flat percentage of the total operating and financing costs of a project; and
- better monitoring of labour and related costs in relation to a reasonable standard.

## TENANT PLACEMENT

During our visit to 20 projects, we reviewed income verification procedures performed by project management for RGI applicants to ensure they were actually in need of a housing subsidy. We were satisfied that income verification procedures were properly performed in those projects and that RGI units were occupied by tenants in need of housing subsidies because of their low income. However, we were not sure whether the most needy were being housed in an equitable and efficient manner.

Under the Ministry's referral policy, non-profit housing projects are required to fill at least 50 per cent of their units designated for the most needy from the local housing authorities' (LHA) waiting lists. The balance of the units may be selected from the non-profit projects' own waiting list. Selection criteria applied by non-profit groups vary and may include one or more of the

following: time on waiting list, degree of need (income), compatibility with existing tenants, adherence to membership rules, and ability and willingness to contribute to the management of the project.

Out of 21 LHAs we surveyed, only one LHA had been consistently requested to provide referrals to non-profit projects in its area. All others stated that most groups in their area asked for referrals at the initial rent-up stage but not when vacancies occurred subsequently. In general, LHAs were frustrated that they were not able to place needy applicants in non-profit projects in their areas and felt that referral arrangements were "inconsistent at best". The most common reasons cited for lack of referral requests were:

- a lack of signed operating agreements requiring projects to adhere to the referral policy;
- lack of formal procedures to ensure that neediest unit vacancies are reported or referred to LHAs even when there is an agreement in place. Non-profit groups often ignore the terms of the agreement unless the LHAs become aware of the problem; and
- significant staff turnover at the non-profit housing projects and insufficient training of new staff.

Multiple waiting lists and inconsistent placement criteria and referral practices make it unlikely that those in need of affordable housing will be treated consistently, equitably and efficiently. This issue was also discussed in our 1991 *Annual Report* section 3.15 and in the Ministry's 1991 Consultation Paper and is still under review.





# RESPONSE

The Deputy Minister of Housing responded to our report on July 24:

## SELECTION AND APPROVAL OF HOUSING PROPOSALS

We appreciate the comments you have provided regarding our review and approvals process. Our need and demand analyses are subject to the same dynamic forces that occur in the housing market in general. Housing demand is known to be cyclical and low vacancies rates are known to occur when housing demand is high. This time, the government has decided to adopt the strategy of providing a buffer against another affordable rental housing shortage like that experienced in the mid-eighties by continuing to create more affordable rental housing units. As the market cycle turns, vacancies are expected to decline but will not return to their unacceptable former levels.

## CONTROL OVER DEVELOPMENT COSTS

### Expected Decline in Costs Not Realized

We had discussions with your staff on this subject and we disagree with their methodology, theoretical comparative analysis with the private sector and the resultant reported financial impact for the following reasons:

- Your comparison of \$1.16 billion of social housing approved in 1991 to the costs of producing similar private sector housing which you derived through the use of private market housing indices is flawed. There are certain costs associated with providing non-profit housing that do not occur entirely or to the same degree in the private sector. For example, obtaining municipal and/or Ontario Municipal Board approval for non-profit housing is in many cases very difficult. In pursuing a community based delivery approach, we have attempted to confront and overcome the fears of residents who object to non-profit housing. This community based delivery approach was, as noted earlier, not achieved without significant cost. While the private sector is subject to the same planning approvals process as the non-profit sector, their residential developments do not serve the same client groups as those in non-profit housing (special needs, lower-income families and seniors) and are therefore not as contentious to the community-at-large. In addition, the review and approval process for non-profit proposals typically takes two years and in some cases longer due to delays in obtaining a hearing before the Ontario Municipal Board. The majority of non-profit groups receiving commitments in 1991 identified suitable sites and made commitments prior to 1991. In turn, the Ministry, during this development phase would have provided these non-profit groups with substantial incentive loan funding to develop their proposals to a point where they could receive a commitment from the Ministry. During 1990 and 1991, as more sites became available, groups could not be expected to drop their sites and acquire new ones due to the substantial investments in time and money. In addition, there was no guarantee that the aforementioned process with regards to obtaining the necessary zoning approvals would not apply to the new sites. For this reason, a comparison between projects that received final approval in 1991 with similar 1991 market construction by the auditor's methodology is not valid.
- The housing indices used by the auditor measure private market trends and, as noted earlier, cannot be used as a measure to assess factors related to non-profit housing. These indices take into consideration the substantial decline in the luxury condominium market which is not a part of non-profit housing. In addition, other cost factors not structured into these indices include

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the legal costs associated with Ontario Municipal Board hearings, services provided by consultants to non-profit groups, and design enhancements to non-profit buildings that are required for tenants with special needs. Such design enhancements include providing access to non-profit housing buildings and modifying the housing units to support the needs of the physically handicapped.

- Even if these indices could have been used for meaningful analysis, they were applied erroneously. The auditor's calculation is based on annual housing price indices. Since most of the 1990 projects were committed in the last months of 1990, the annual indices used by the auditor should have been weighted to reflect the monthly variations in housing costs.
- The suggestion that 127 two-bedroom equivalent units were actually purchased for \$140,000 per unit is misleading because no such purchase was made. The two-bedroom equivalent unit is a theoretical construct devised by the auditor as a tool for comparison. It is a simple tool that only takes into account square footage. However, one cannot derive an average cost for a two-bedroom unit simply by adjusting costs in proportion to differences in square footage. Each unit, regardless of size, has fixed costs. Therefore, a real two-bedroom unit is cheaper than two one-bedroom units. The sample analyzed by the auditor is too small and is not representative of the true picture. In reality, 237 units were acquired at a cost of \$76,783 per unit.

Despite our disagreement with your comparisons and methodology, and within the context of community based delivery, we are committed to ensuring that non-profit housing projects are developed in the most cost-effective manner. Our own analysis of non-profit housing projects approved in 1990 and 1991 indicated that the Ministry got good value for its money.

### **Highest and Best Use Appraisal Value**

The Ministry's use of "highest and best use" appraisal methods is consistent with standard practices used in both the private market and the government. In addition, appraisal is only one of many tools used by management for making decisions. The Ministry's policy is to negotiate the best price based on market value. Nonetheless, if there is concern with the use of this type of appraisal, we will discuss the matter with the Ministry of Government Services. However, we recognize the importance of examining surrounding land transactions before purchasing land. In the future, staff will be trained to ensure that all Ministry appraisals include the examination of recent land transactions and events pertaining to the site and within the catchment area of the subject site.

### **Competitive Procurement Practices**

With the sudden decline in the real-estate market, many developers had properly zoned sites well suited to non-profit projects. Developers submitted numerous proposals to the non-profit groups which were reviewed by the Ministry. The Ministry was able to take advantage of opportunities for cost and time savings by allowing non-profit groups to negotiate directly with the developers that proposed the most attractive offers. Further, due to the number of modified turnkey proposals offered there was a high level of competition among private developers, and the non-profit groups had considerable choice. By responding to worthy proposals, the Ministry was able to realize time and money savings.

### **MUP Not Adjusted When Costs Declined**

Your comment on Maximum Unit Prices (MUPs) is noted and this matter is being reviewed through the Ministry's Non-Profit Program Review by making MUPs more responsive to localized market conditions.

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## COMPLETED PROJECTS IN OPERATION

### ESTABLISHING FINANCIAL CONTROL AND ACCOUNTABILITY

*The Ministry has also identified the need for project level operating agreements as a serious concern and has placed a high priority on finalizing these project operating agreements. Our negotiations with the co-operative sector have resolved most of the difficult issues.*

*We recognize the importance of timely review and approval of budgets and statements. As part of the Non-Profit Program Review, the Ministry is examining ways to streamline the review and approval of financial statements to make the process quicker and easier. In addition, we have instituted a monthly reporting procedure to address any outstanding issues.*

### DETAILED COST ANALYSIS

*Your comments in this section have been noted. As part of the Ministry's Non-Profit Program Review, we are currently examining the policies on a number of operating cost issues, which include administrative, labour and replacement reserves costs.*

### TENANT PLACEMENT

*We are pleased to note that you find our income verification procedures to be satisfactory. Your comments on tenant placement and referral procedures which we also identified as concerns through the Housing Policy Framework initiative are also valid. Tenant placement and referral procedures are governed by project operating agreements. After the Ministry has finalized these project operating agreements we will be able to more effectively monitor and enforce tenant placement procedures.*

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## LIQUOR CONTROL BOARD OF ONTARIO:

# Selling Prices, Transportation of Liquor, and Treasury Operations

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The Liquor Control Board of Ontario controls the importation, distribution and sale of alcoholic beverages in Ontario. The Board operates over 600 stores for the sale of liquor to the public. For the 1991/92 fiscal year, sales were approximately \$1.8 billion. The Board remitted \$675 million in profits to the Consolidated Revenue Fund.

Our audit covered selling prices, the transportation of liquor, and treasury operations. We assessed whether:

- selling prices were properly calculated;
- the acquisition and management of freight services were satisfactorily controlled; and
- revenues and investments were satisfactorily controlled and managed in accordance with applicable policies and procedures.

## CONCLUSIONS AND FINDINGS

### SELLING PRICES

The Board had satisfactory procedures to ensure that selling prices were properly calculated.

### TRANSPORTATION OF LIQUOR

Controls over the acquisition of freight services were more than satisfactory. By tendering for freight related to imported

products, the LCBO has saved over \$3 million per year.

On the other hand, controls over the management of freight services were less than satisfactory.

- Freight costs for deliveries to stores could have been reduced had trailers been better loaded.
- At one warehouse, a trucking company was paid approximately \$250,000 to move trailers in and out of the shipping area. No similar costs were incurred at the other warehouses.

### TREASURY OPERATIONS

Overall, controls over investments and store revenues were satisfactory and complied with applicable policies and procedures. For example, tendering for banking services resulted in savings in service charges of more than \$600,000 annually. However, we had concerns regarding foreign currency transactions.

- Since 1989, foreign currency transactions undertaken by the Treasury Department have been speculative rather than tied to a hedging program.
- Internal controls over these transactions were unsatisfactory.



## COMMENTARY

### SELLING PRICES

The Board lists approximately 3,000 domestic and imported liquor products. In addition, approximately 600 specialty products are available at any one time at designated Vintages stores.

### CALCULATION OF SELLING PRICES

We determined that retail selling prices for general listings were satisfactorily controlled and included correct mark-up and taxes. In addition, procedures were in place to ensure that price changes are updated on a timely basis.

### TRANSPORTATION OF LIQUOR

The Distribution Division is responsible for importing, warehousing and delivering liquor products. Transportation costs were \$37.4 million for the 1991/92 fiscal year, of which \$23.2 million was for delivering imported liquor to LCBO warehouses in Whitby, London, Ottawa and Thunder Bay, and \$9.5 million was for moving liquor from the warehouses to stores.

### ACQUISITION OF FREIGHT SERVICES

Approximately three years ago, the Distribution Division began formally tendering for all major freight services. During our audit, the Board was in the process of completing a tender for deliveries to stores from the Whitby warehouse, which was the last remaining major untendered transportation service. We reviewed these tenders and were more than satisfied with the Board's progress and its adherence to established purchasing policies and procedures.

Tendering for freight services has resulted in significant cost savings. For example, competitive tendering for overseas shipping freight has saved over \$3 million per year.

However, we determined that some improvements were still needed.

- Annually, the Board charters a cargo plane to ship a specialty wine from Brussels to Toronto to ensure on-time delivery to Board stores for a world-wide promotion of the product. The Board has used the services of one charter company for the last several years. The cost in 1991 was approximately \$250,000. We were informed that competitive quotes are not obtained because the Board has been satisfied with the service provided, which requires meeting a very tight delivery schedule.

Considering the significant savings achieved by tendering for other freight services, the Board should investigate whether less costly suppliers are available that will give adequate assurances that they will meet the tight deadline.

- When tendering large contracts, a common purchasing practice is to require a bid bond. Bid bonds are guarantees from insurance companies that the bidder will not withdraw their bid if awarded the contract.

While bid bonds were required for the overseas shipping freight tender, no bid bonds or other form of security were requested for domestic tenders. During a March 1992 tender for deliveries from one warehouse to stores, the two lowest bidders withdrew after having been offered the contract. The Board then awarded the contracts to the next lowest bidders. As a result, the additional costs to the Board will total \$300,000 annually over the three years that the contract is in force. Had the Board required bid bonds or other form of security, it would have had recourse

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to recover at least some of the additional costs.

## MANAGEMENT OF FREIGHT SERVICES

The Board operates four warehouses that are primarily responsible for receiving liquor from suppliers, as ordered from head office, and carrying out scheduled deliveries to their assigned stores, usually on a weekly basis. All delivery services to and from the warehouses are provided by transportation companies.

In addition to reviewing the Distribution Division at the head office, we visited the three largest warehouses.

### Deliveries to Stores

We reviewed over 300 deliveries made to stores during 1991 from the three warehouses we selected and noted the following:

- For two of the warehouses, opportunities existed to reduce the number of trailers hired had loads been maximized. For example, two trailers from the same company were scheduled by one warehouse for deliveries to stores in the same area. The first trailer made a morning delivery to one store of approximately 8,400 kilograms of liquor and cost \$537. The second trailer made an afternoon delivery to another store of approximately 10,200 kilograms of liquor and cost \$652. Trailers are capable of carrying approximately 23,000 kilograms. Since both deliveries combined weighed 18,600 kilograms, these deliveries could have been scheduled using only one trailer at a cost of \$742, and the Board would have saved \$447.

Savings could be achieved by improved loading procedures, better scheduling of deliveries to stores, and by monitoring the loading efficiencies achieved by warehouse shipping staff. Both of these

warehouses combined paid approximately \$8 million to trucking companies for deliveries to stores. We estimated that savings ranging from 5 to 10 per cent are possible at these warehouses.

- At the third warehouse, which spent approximately \$1.2 million for deliveries, we did not find any opportunities for increasing the size of loads. Rather, we determined that loads were frequently excessive and exceeded weight restrictions as set out in the *Highway Traffic Act*. Some trailers were loaded over 5,000 kilograms more than their allowable weight. The Act states that both the trucking company and the shipper can be fined for exceeding weight restrictions.
- Warehouse staff inform trucking companies one day in advance of their assigned loading times. Trailers and a company representative, usually the driver, are required to be present at the shipping area to count and load the cases into their trailers. At one warehouse, a company was paid approximately \$250,000 to move their own and other companies' trailers from the storage yard to the shipping area in order for these trailers to be available at their assigned time. At the other warehouses, no similar charges were incurred. Instead, individual companies ensured that their trailers were available at the assigned loading time at no additional cost to the Board.
- Stores are grouped and tendered as a package. Improvements in the groupings would result in additional savings to the Board. We noted several examples where groupings overlapped geographically and resulted in several trucking companies being used for the same general area. We also noted instances where different companies made deliveries on the same day in the same general area, and both trailers were only half loaded.

For example, one trucking company was used for store deliveries from one warehouse to the Toronto area. However, three companies were delivering to stores in the Hamilton area from the same warehouse.

In addition, because stores were not grouped geographically, trucking companies bid higher rates for stores that were outside the geographic area of the majority of the stores in that grouping. Using the bids obtained for one warehouse, we estimated that savings of over \$20,000 were possible had stores been grouped geographically.

## TREASURY OPERATIONS

We reported in our 1988 *Annual Report* that the Board was incurring excessive banking service charges and high borrowing costs and needed to improve their cash forecasting. To deal with these concerns, a separate treasury function was created in mid 1989 to develop and implement a system to improve and monitor cash management practices.

The Treasury Department's primary responsibilities are banking relationships, armoured car services, investing of interim surplus cash, foreign currency matters, and transfer of profits to the Province's Consolidated Revenue Fund.

The Treasury Department consists of four staff, including the Treasurer.

As part of our audit, we assessed stores' internal controls over daily cash receipts and bank deposit procedures.

## BANKING RELATIONSHIPS

In May 1990, the Board tendered for a five-year banking services agreement. Submissions from five major chartered banks were received and a chartered accounting firm was used to evaluate the proposals. The

bank that offered the most competitive pricing was chosen.

Under previous banking arrangements, the Board's average monthly bank service charges totalled approximately \$150,000. The tender resulted in these charges decreasing to approximately \$100,000 per month. The resulting annual savings were approximately \$600,000.

In addition, the Board has negotiated that the bank pay interest on deposits in transit to the bank in armoured cars. This has resulted in additional interest income revenue totalling approximately \$300,000 annually.

## TRANSFERS TO THE CONSOLIDATED REVENUE FUND

Prior to each fiscal year, the Treasury Department prepares a schedule indicating weekly remittances to the Consolidated Revenue Fund based on estimated cash flows for the year. Once completed, the Ministry of Treasury and Economics is informed of the amounts and timing of transfers that they can expect during the year. For the year ended March 31, 1992, scheduled transfers totalled \$665 million.

We assessed the amounts the Board transferred for the 1991/92 fiscal year, and were satisfied with the total amount transferred based on our analysis of the Board's financial statements. For instance, despite a sales revenue shortfall of approximately \$47 million, the Board transferred \$10 million more than originally planned. This was primarily achieved through expenditure constraints. As a result, transfers to the Consolidated Revenue Fund totalled \$675 million for the 1991/92 fiscal year.

Although cash flow forecasts were used to schedule transfers, we felt that the Board held funds longer than was necessary



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during the 1991/92 fiscal year. During the first three quarters of the fiscal year, the Board had accumulated excessive amounts of cash, primarily in short-term deposits. However, accelerated payments were not made until the last quarter of the fiscal year.

We were informed that, for the 1992/93 fiscal year, the Board has adjusted their transfer schedule so that payments will be accelerated by \$70 million by the end of the third quarter of the fiscal year when compared to the 1991/92 fiscal year.

## REVENUE CONTROLS AT STORES

Store managers are provided with an administrative manual that details procedures for managing and accounting for sales receipts, including bank deposit procedures. To ensure store managers comply with the controls stated in the manual, analysts from the Financial Quality Assurance Department regularly visit stores to test their records and determine whether these records are up to date.

We reviewed the contents of the manual and were satisfied with the revenue controls established for stores. In addition, we visited four stores together with the Board's analysts and determined that controls were working as intended.

## FOREIGN CURRENCY

For the 1991/92 fiscal year, the Board purchased approximately \$143 million in imported liquor, for which payments to suppliers were required to be made in foreign currencies. US dollars accounted for approximately \$100 million of this amount.

When purchases are paid for in foreign currencies the ultimate cost of the product to the Board depends on the exchange rate at the time of the payment, which may be significantly different from the rate at the time the product was ordered. Often three to six months may have elapsed.

Management may decide to accept the risk of a significant negative change in the exchange rates or may initiate steps to manage that risk by using a hedging program. Hedging can be accomplished using instruments such as foreign exchange forward contracts and options. Buying a forward contract or option from a bank guarantees an exchange rate in advance. In return the buyer eliminates any uncertainty regarding the amount to be paid in Canadian dollars. At the LCBO, the Treasury Department's responsibilities include the managing of foreign exchange risk.

### Existing Practices

Since its formation in 1989, the Treasury Department has been actively buying and selling foreign currency exchange instruments. However, the transactions entered into were not related to the Board's foreign currency requirements and collectively could not be considered a hedging program.

We concluded that the Treasury Department's activities related to foreign currency exchange financial markets over the past three years have been primarily speculative. The focus was on making a profit, as opposed to hedging against foreign exchange rate fluctuations. It is clear that no attempt was made to match these activities with the Board's actual foreign currency requirements.

Financial instruments were not purchased to reduce uncertainty or risk. The primary activity was the selling of option agreements for which the banks would pay the Board premiums. Generally, these options would only be exercised if the exchange rates moved unfavourably. Otherwise they would expire worthless, and the Board would retain the premium received. However, options can result in unlimited compensation to the purchaser when exchange rates change adversely. We considered these transactions to be speculative, creat-



ing unwarranted additional risk to the Board.

For example, the Board annually purchases approximately \$32 million of liquor from suppliers who require payment in French francs. On November 22, 1991, the Treasury Department had option agreements outstanding for French francs totalling approximately \$400 million (Canadian).

However, despite the significant number of transactions involving the buying and selling of foreign currency instruments, the Board pays most of its foreign bills by purchasing foreign currencies on the date payment is due. During discussions, Board staff conceded that their activities were not a hedging program, but were a means for generating additional revenues to offset any costs incurred to purchase foreign currency.

We were concerned that these activities have been carried on since 1989 when, on several occasions, both the LCBO's Board of Directors and the Ministry of Treasury and Economics clearly approved only a hedging program, and stated that speculative transactions were not to be entered into.

For example, in November 1989, a Board member expressed concern that some of the option initiatives could be considered speculative and requested senior management to meet with the Ministry and obtain an endorsement for these types of transactions. In a response to senior management on February 7, 1990, the Ministry advised that "hedging transactions undertaken to avoid or reduce foreign exchange risk are acceptable, but speculative foreign exchange transactions are not permitted".

On three other occasions—December 24, 1990, July 5, 1991, and February 28, 1992—the Ministry informed Board management that foreign exchange activities should not involve speculative transactions. For example, on July 5, 1991, the Ministry

advised that "using options is permissible as long as it is confined to hedging against foreign exchange exposure and does not involve speculative foreign exchange transactions."

When we contacted the appropriate staff of the Ministry, we provided examples of the types of foreign exchange activities that were undertaken by the Treasury Department. They expressed to us their concern that these activities were not consistent with the advice they had previously provided.

### **Planned New Program**

During our audit, we were informed that Board management was in the process of developing a hedging program. A policies and procedure manual had been developed with the assistance of external consultants and a computerized foreign exchange management system was being purchased. On January 31, 1992, the Board of Directors approved the acquisition of this system after considerable discussion with senior management regarding the need to ensure that foreign exchange activities were handled in a manner which minimized risk to the Board.

On February 28, 1992, in response to a request from the Board to review the policies and procedures manual, the Ministry agreed that there was a need to manage foreign currency exposure from purchases. They cautioned, however, that "foreign exchange transactions of a speculative nature are not regarded as acceptable practice by the Province. The guiding principal in your foreign exchange activities should be risk mitigation not risk creation."

The Board's internal auditors and our Office had concerns that the changes planned will not result in reduced risk to the Board. Details of the new program included plans to continue the transactions which we considered speculative, in addi-

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tion to managing the foreign currency exchange exposure from purchases of products. For example, software companies bidding for the new system were instructed that any new system must be capable of handling annual volumes exceeding \$1 billion dollars of managed positions, in addition to the foreign currency exchange exposure resulting from purchases of \$145 million. The description of managed positions is identical to those of the past activity. The manual also indicates that managed positions will be a significant part of the activities of the new program.

### **Controls over Foreign Currency Activities**

There have been unsatisfactory controls over the Treasury Department's past foreign currency activities. Good controls should have been developed earlier since individual premiums and settlements have ranged from \$1,000 to over \$700,000 and approximately 75 transactions were incurred each month.

Good controls would provide assurance to senior management that assets are used as intended, and accounting records are reliable and prepared on a timely basis. We determined that several controls were deficient. For example:


- The extent of reconciliations of foreign currency activities was questionable. We determined that \$70,000 was in the wrong general ledger account since early 1991 while a known \$22,000 overpayment by a bank was not returned.
- In addition, foreign currency bank transfer approvals and bank confirmations were not compared by the accounting department to bank statements to verify whether funds were used as intended.
- Several transactions were made using accounts that the Treasurer had estab-

lished at two brokers. For one account, the Treasurer deposited a \$200,000 interest bearing bond as collateral without obtaining senior management's authorization to do so. These separate accounts resulted in no approvals or reconciliations necessary for individual transactions.

We determined that a \$60,000 cheque from one of these accounts was unaccounted for. The cheque had been missing for approximately six months and went undetected. After we informed the Treasurer, the broker replaced the cheque, with interest. While the broker indicated that their internal system would have picked this up, there is no guarantee that the Board would have received the \$60,000.

- To pay for option agreements that were exercised by the bank, the Treasurer would sell a new option agreement to the bank and use the premium revenue to offset the payment. The proceeds or outcome of individual transactions were not apparent from the manual records and bank statements. Only zero balances, rather than the settlement or premium amounts, were recorded. Accordingly, any losses were not evident.
- Income was not recognized in a consistent fashion. For some periods we calculated significant losses. However, profits that were not recorded in prior periods were carried forward to smooth income and report a minimal profit for each period.
- Banks and the Treasurer were not restricted as to the total outstanding options that could be authorized. Although for short-term investments, the Treasurer was limited to \$25 million per financial institution, the LCBO had outstanding option agreements totaling over \$465 million during October 1991.

- Reports were periodically prepared by the Treasurer for senior management that listed all outstanding option agreements. These reports did not include a value of the net worth of these agreements, nor did the timing of these reports coincide with the interim financial period end dates. Unless extensive

calculations were done by someone with specialized expertise, it was not evident from the reports whether the portfolio was profitable or in a deficit position. Except for the year end, any comparisons during the year with the period results were not possible. 

## RESPONSE

The Chair and Chief Executive Officer of the Liquor Control Board of Ontario responded to our report on September 21:

### TRANSPORTATION OF LIQUOR

#### ACQUISITION OF FREIGHT SERVICES

*The cargo plane in question was chartered for the very successful Beaujolais Nouveau program. This is an event-driven product launch with very little time between the harvesting and bottling of the wine and its predetermined public unveiling. In these circumstances, prompt and reliable transportation is crucial. The Board has experienced problems in the past because of these tight time constraints. Companies that promised delivery did not fulfil their obligations. For the past three years, the Board has relied on the same carrier and has received excellent service. However, the Board will obtain additional quotes from other carriers in future to ensure that the carrier presently used is as cost-competitive as it is dependable.*

*Bid bonds will be required for all future shipping tenders.*

#### MANAGEMENT OF FREIGHT SERVICES

##### Deliveries to Stores

- *A working group with representation from the LCBO's Distribution and Retail Divisions has been established to identify additional opportunities to improve delivery procedures and scheduling. Load capacities are also being adjusted to reduce freight costs.*
- *It has been made clear to the responsible staff that all loads must be within the weight limits in the Highway Traffic Act.*
- *Ongoing efforts, including the tendering of contracts, are continuing to ensure that freight services provided to the LCBO by private carriers are done so in a manner which is both efficient and cost-effective.*
- *Store groupings are being reassessed by a working group with representation from the LCBO's Distribution and Retail Divisions with a view to identifying and implementing the optimum arrangement.*



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## **TREASURY OPERATIONS**

### **TRANSFERS TO THE CONSOLIDATED REVENUE FUND**

*The cash flow forecast for fiscal 1991/92 was developed based upon anticipated "soft" sales during the first part of the year. However, sales were better than originally forecast, particularly during the Christmas season. In the latter part of the year, sales declined and surplus cash was used to meet ongoing purchase obligations.*

*Increased emphasis is continuing to be placed by the LCBO on its cash management practices. This includes ensuring enhanced integration of product procurement activities with the cash flow generated by sales. In this way, the Board will be able to meet its ongoing business commitments and funds will be transferred to the Consolidated Revenue Fund in a timely way.*

*It was anticipated that transfer payments would be accelerated in 1992/93, when compared with 1991/92, but reduced sales have resulted in reduced transfers to the Consolidated Revenue Fund.*

### **FOREIGN CURRENCY**

#### **Existing Practices**

*Trading practices about which concern has been expressed have ceased. A revised hedging program designed to limit the Board's risk exposure is presently being developed with the assistance of specialized consultants.*

#### **Planned New Program**

*The new program initially envisaged has recently changed focus and direction. For example, a software system with large volume capacity was originally considered, but the decision was made not to purchase it. A revised strategy is being formulated that will ensure that all foreign currency exchange activities are related to LCBO purchase commitments. This strategy will also help ensure that foreign exchange activities are suitably managed to minimize risk exposure to the LCBO.*

#### **Controls over Foreign Currency Activities**

- *With the assistance of specialized consultants in foreign currency activities, enhanced controls have been instituted.*
- *A revised approval process is being implemented and in future full reconciliation will be ensured for all foreign currency activities.*
- *As part of the revised hedging program, such practices in future will not be possible as the Accounting Department will ensure full documentation of all cash inflows and outflows.*
- *More detailed and consistent reporting requirements are being instituted.*
- *Clearly defined limit structures will be monitored through exception reports which are part of the revised hedging program.*

*In future, the value of outstanding option agreements will be clearly stated.*

*The Board appreciates the positive comments made in the course of the audit concerning LCBO practices, specifically in the areas of acquisition of freight services, payments to suppliers, armoured car services, banking relationships, and revenue controls at stores. The recommendations made to strengthen LCBO operations are also welcomed.*



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## MINISTRY OF NATURAL RESOURCES:

# Timber Stumpage, Hunting and Fishing Licences, and Provincial Park Fees

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The goal of the Ministry of Natural Resources is to contribute to the environmental, social and economic well-being of Ontario through the sustainable development of natural resources. In this regard, the Ministry has developed programs concerned with the use of resources such as land, water, trees, fish and animals.

The Ministry's philosophy is that "prices charged for resources should reflect a fair return to the public, the extent of benefits received, the need to encourage efficient resource use, and the cost of protection, renewal, restoration and rehabilitation."

We assessed whether internal controls over revenue collection from timber stumpage charges, hunting and fishing licences, and provincial park fees were adequate, and whether related policies and procedures were being followed.

To achieve our objective, we examined the controls and procedures:

- for timber stumpage charges at the Wood Measurement Section along with one regional and one district office;
- for hunting and fishing licences at five district offices; and
- for provincial park fees at two district offices.

The Ministry collected approximately \$105 million from these three sources in the 1991/92 fiscal year.

## CONCLUSIONS AND FINDINGS

### TIMBER STUMPAGE CHARGES

Controls over revenue collection were satisfactory, and related policies and procedures were for the most part followed. However opportunities existed for administrative changes that would yield additional revenue. The Ministry was in the process of conducting a Comprehensive Revenue Review Project.

### HUNTING AND FISHING LICENCES

Controls over revenue collection were less than satisfactory, and related policies and procedures were for the most part not followed. For example:

- of the 47 issuers we reviewed, we found that approximately \$500,000 of the \$700,000 in licence revenue received by the Ministry was remitted late;
- some issuers received additional licences even though payment had not

- 
- been received for similar licences already supplied;
  - the number of issuers should be reviewed. At the time of our audit, there were approximately 4,200 licence issuers in the province, of whom approximately 1,400 sold fewer than 250 licences in the 1990/91 year; and
  - contrary to Ministry policy, approximately \$300,000 in 1992 licences were sent to 32 issuers who had resigned or whose accounts were problematic.

## PROVINCIAL PARK FEES

Controls over revenue collection were satisfactory, and related policies and procedures were for the most part followed.

# COMMENTARY

## TIMBER STUMPAGE CHARGES

Timber stumpage charges are payments from companies and individuals for the harvesting of timber from Crown land. These charges, which are set by Regulations to the *Crown Timber Act*, are based on whether the licensee is categorized as “integrated” or “non-integrated”, the type of timber harvested, and industrial price indices for commodities produced from timber.

Regulation 234 under the *Crown Timber Act* defines an “integrated” licensee as one who owns or operates a pulp mill, or is related to the owner or operator of such a mill in Manitoba, Ontario or Québec. A “non-integrated” licensee owns or operates a sawmill or other mill that is not a pulp mill, and is not related to the owner or operator of a pulp mill.

Total stumpage charges for the 1991/92 fiscal year were \$54 million (1990/91 - \$69 million).

There are five basic types of licences:

- Orders-In-Council;
- Forest Management Agreements;
- District Cutting Licences;
- Tendered Sales; and
- Salvage Licences.

Orders-in-Council and Forest Management Agreements cover most of the area under licence in the province and provide most of the revenue generated from stumpage charges.

Order-In-Council (OIC) Licences are granted by the Minister, with the approval of the Lieutenant-Governor in Council, to entities requiring a relatively long-term commitment for timber (for example, sawmills). OIC licences are issued for periods of up to 21 years for large areas and from one to five years for smaller areas.

Companies operating under Forest Management Agreements (FMAs) agree to manage the harvesting and silvicultural (forest regeneration) activities on the area covered by the agreement, in addition to paying the required stumpage fees. The Ministry reimburses the company for a portion of silvicultural and road construction costs. No money has been allocated for FMA road construction since fiscal 1990/91. FMA licences are issued for a 20-year term and are extended every five years if the terms in the agreement are met. At the time of our audit, there were 28 FMAs in the province.

The other three types of licences are for personal use such as for firewood, selling to the general public or a select group, or a clean-up operation for killed or damaged timber.

Invoices for timber cut by a licensee are generated in Sault Ste. Marie at the end of each month by the Timber Scaling and Billing System.

## FINANCIAL SYSTEMS

Based on our audit, we concluded that controls for the Timber Scaling and Billing System and the Timber Accounts Receivable System were satisfactory. We were also satisfied that tally sheets, cubic metre measurements and approved cull (defect) factors were properly recorded.

### TIMBER SALES FROM NON-INTEGRATED TO INTEGRATED COMPANIES

Provincial Crown dues are based on an established price for each cubic metre of Crown timber cut. These vary according to the species of timber harvested and whether the licensee is integrated or non-integrated.

Under the current pricing structure, the integrated licensees generally pay higher Crown dues. For example, during the first quarter of the 1991/92 fiscal year, conifers were priced at \$6.23 per cubic metre for integrated licensees, and \$2.88 per cubic metre for non-integrated licensees.

The only exception is covered under Subsection 3(6) of Regulation 463/88 under the *Crown Timber Act*. This permits an integrated licensee using timber at its own sawmill or selling to another sawmill, to be charged the lower, non-integrated rate (\$2.88 instead of \$6.23 in the above example).

On the other hand, the Regulations do not address a situation wherein a non-integrated licensee sells the timber to a pulp mill. The licensee still pays the non-integrated rate (\$2.88 rather than \$6.23).

The Ministry's Timber Billing and Scaling System identifies the movement of timber by mill destination. Therefore, the Ministry has the information necessary to determine how much timber is sent to pulp mills by non-integrated licensees.

The December 1987 *Crown Timber Charges Review Report: Equity and Fairness to the Resource, Its Owner and Its Users* prepared by the Ministries of Natural Resources and Treasury and Economics, stated that "there is a growing problem with the differentiation of prices between integrated and non-integrated Crown timber licensees. The definition itself is nebulous and problematic and the distinction is outdated in a situation where Crown timber harvested by an integrated licensee is not necessarily destined for a pulp or paper mill, nor is Crown timber harvested by a non-integrated licensee always destined to a sawmill. This creates a situation where the Crown is charging different prices for roundwood to mills which produce a comparable product. Consequently, the Timber Charges Review Group concluded that the current definition should be discarded in favour of a finer-tuned distinction based on mill destination."

Management at the Forest Industries Section advised us that this recommendation precipitated the addition of Subsection 3(6) to the Regulation. However, this only addressed one side of the issue.

For the 1990/91 fiscal year, an additional \$5.2 million in Crown dues would have been obtained if all timber destined for pulp mills had been charged at the integrated rate. This amount has increased over the past three years from \$2.2 million in 1988/89 to \$4.6 million in 1989/90.

The Ministry has been adhering to the current regulations. However, considering the significant amounts involved, we recommended that the Ministry review the stumpage fees charged for timber shipped to pulp mills by non-integrated licensees.

We were advised that the Ministry is currently conducting a Comprehensive Revenue Review Project. This would provide an excellent opportunity to consider making any desired revisions to the regulations.



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## INVOICE PROCESSING

According to Ministry policy, "invoicing for material cut and measured, and other applicable costs should be carried out as frequently as prudent." To achieve this, the Ministry collects information on timber measured, and invoices licensees monthly. Payments are due by the end of the month following the invoice date.

Tally sheets indicating the amount of wood measured are submitted to the regional and district offices on a weekly basis for input into the Timber Scaling and Billing System. In the case of the mass scaling method (weighing of wood), companies generally send the information to the Ministry on a monthly basis. This method accounted for approximately 70 per cent of the 16.4 million cubic metres invoiced during the 1990/91 fiscal year. Therefore, timber invoiced at the end of one month was actually measured during the previous month.

If the Ministry were to invoice for wood measured during the first three weeks of a given month by the end of the same month, we estimate that the Province would earn approximately \$400,000 in interest annually.

This would require the companies using mass scaling to submit information more frequently than once a month. Currently, this information does not reach Sault Ste. Marie until after the end of the month in which the timber was measured. Instead of the current practice of mailing the magnetic tape, the information could be transmitted electronically by modem. This would enable the Ministry to invoice for most timber in the month that it is measured.

## NEGOTIATED BONUS PRICING

Forest Management Agreements (FMA) and Order-In-Council (OIC) licensees pay a negotiated bonus price in addition to the Crown dues. In the case of tendered sales,

the bonus is the amount bid over the Crown dues.

Ministry staff advised us that bonus prices for FMAs and OICs are determined based on species, quality, location and accessibility. However, we found that there is no formalized process or mechanism in place to determine bonus prices or to ensure that bonus pricing is applied consistently within regions and across the province.

A 1987 Crown Timber Charges Review report stated that "negotiated bonus prices as they currently operate are arbitrary and do not contribute to achieving fair pricing."

In addition, a September 1991 draft report on a study of Forest Revenue Mechanisms and Pricing Policies stated that "competitive auctions or sealed bidding can provide information on the value of standing timber which is useful in establishing stumpage prices for non-competitive sales." Stumpage prices are the combination of Crown dues and bonuses paid per cubic metre of timber.

We reviewed eight tendered sales and noted that bonus prices paid were always greater than those paid by neighbouring FMA and OIC licensees for the same species of timber. Minor differences may be justified; however, in many instances, the differences were significant.

The Ministry advised us that tendered sales are not directly comparable to non-tendered sales unless species quality, access and obligation of tenure holders are carefully matched. However, since there has been no attempt by the Ministry to make such comparisons, there are no explanations available for the differences.

If these licensees paid the same bonuses as were paid through the tendered sales, the Ministry would have received approximately \$700,000 more during the 1990/91 fiscal year. For example, for white pine:



- one OIC licensee paid a bonus price of \$1 per cubic metre while a company under a tendered sale paid a bonus price of \$23.88 per cubic metre. Based on the total white pine harvested under that OIC during 1990/91, the Ministry would have received an additional \$100,000 if the tendered sale price had been paid; and
- under another tendered sale, a company paid a bonus of \$10.34 per cubic metre while an FMA licensee paid no bonus. Based on the total white pine harvested in 1990/91 by the FMA licensee, the Ministry could have received approximately \$100,000 in additional revenue.

We also compared the bonus prices for three neighbouring FMA and OIC licences. For example, one OIC licensee paid a bonus price of \$1 per cubic metre for white birch while the FMA licensee paid no bonus. For the three examples reviewed, the Ministry could have earned an additional \$100,000 in revenue if the FMA licensees had paid the same bonus rate as the OIC licensees.

We recommended that the Ministry develop criteria for the calculation of bonus prices and ensure that these criteria are applied on a consistent basis.

## HUNTING AND FISHING LICENCES

The Ministry issues 53 different types of hunting and fishing licences for which it received \$37 million in revenue during the 1991/92 fiscal year. The public purchases these licences through a network of approximately 4,200 issuing agents appointed by the Ministry. The majority of licensing agents are fishing tackle and hunting stores, hardware stores and various recreational outlets.

The Ministry annually sends issuers a supply of each of the various licences. The quantity sent is determined by the issuers'

sales volume during the preceding year. Each month, issuers are required to remit proceeds from the sale of licences along with a copy of each licence sold.

## REMITTANCE OF REVENUES

Ministry policy states that "the fees for all licences sold each month are to be remitted to the Ministry on or before the twentieth day of the following month." We reviewed remittances totalling approximately \$700,000 from 47 issuers at five districts and found that approximately \$500,000 was remitted more than two months late.

For example, one issuer remitted \$37,000 on December 17, 1991 of which \$35,000 was past due. Another issuer remitted \$51,000 on December 27, 1991, all of which was late. Some of these funds were as much as 10 to 17 months past due. Total lost interest revenue to the Province from the late remittances we audited was approximately \$7,600.

We also visited 27 issuers and found that 24 had approximately \$200,000 of past due licence revenues on hand. For example, at the time of our visit, one issuer had \$44,000 of licence revenue overdue for more than two months while two other issuers owed \$21,000 and \$35,000 respectively. Some of these amounts were as much as a year overdue.

Most issuers we visited advised us that they did not remit sales revenue before they receive their monthly statement. This is contrary to Ministry policy which states that issuers are to remit funds monthly, regardless of whether statements had been received.

## MONITORING LICENCE ISSUER ACCOUNTS

Ministry policy states that "cost centre managers are responsible for monitoring the accounts, inspecting the records of licence issuers and ensuring that they are

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maintained in a current state, and that Ministry revenue from the sale of licences is secure." We noted that in many instances, there was little monitoring of issuer accounts. For example:

- Some issuers were supplied with additional licences when they had not remitted revenue during the previous two months, or already had a sufficient quantity of that licence type.

One issuer who had made no payments for 11 months received an additional 690 licences valued at \$9,500.

Another issuer owed \$5,700 as of May 1, 1990. Between May 1, 1990 and April 30, 1991, the issuer received 10 additional licence orders totalling \$13,000. During this time, the issuer made three payments and returned unused licences totalling \$5,000. The outstanding balance of \$13,500 as at May 3, 1991 was sent to the Central Collections Service of the Ministry of Government Services. If this account had been monitored more closely, the additional licences would not have been supplied to the issuer.

A third issuer received an additional 760 licences valued at \$7,000 in August 1991 when no payments had been received since May 15, 1991. The issuer already had received these types of licences for which the Ministry had not received payment.

Additional licences should only be supplied when the Ministry has received payment for the majority of licences previously supplied to that issuer.

- District staff did not send the required registered letters 60 days after the payments were due and no remittances were received.

One issuer's last remittance was December 20, 1990. District staff did not send a letter requesting payment until December 5, 1991, at which point the issuer's account balance had reached

approximately \$40,000. Approximately \$37,000 was for sold licences while the remaining licences were unsold and expired.

Another issuer had not made any payments since becoming an issuer in May 1991. As at November 1991, approximately \$11,000 was owed to the Ministry for sold licences.

- Account reconciliations were not being done on a timely basis.

According to Ministry policy, the district account is to be reconciled each month and discrepancies are to be resolved. Four of the five districts reviewed had not prepared a district account reconciliation for over one year.

- The Ministry's policy requires that an issuer's records and licences on hand be inspected when licence revenues are not received. Administrative personnel had visited licence issuers to review their records in only two of the five districts.

Administrative personnel could monitor the timeliness of revenue remittances by reviewing the dates recorded on the sold licence copies submitted to the district office. These licence copies were generally not reviewed to ensure that issuers made remittances on a timely basis.

## ADMINISTRATIVE COSTS

Of the approximately 4,200 licence issuers in the province, 1,400 issued fewer than 250 licences in the 1990/91 year. At the five districts we audited, there were more than 200 issuers who sold fewer than 250 licences in the 1990/91 year. Of these, 125 were located near other issuers.

We questioned the need for such a large number of issuers, especially those selling a small number of licences and located close to other issuers.

In addition, Ministry policy states the cost centre manager can recommend to the Minister the cancellation of an individual's licence issuing authority. We noted a reluctance by the districts to recommend this. For example, one issuer was charged in November 1990 for not remitting Crown funds. The issuer made substantial remittances in December 1990 and February 1991 reducing the balance from \$34,000 to \$3,500. The issuer received additional inventory, but was again charged under the *Game and Fish Act* in September 1991. As of February 1992, the individual's licence issuing authority had not been revoked.

### LICENCES SUPPLIED TO "DISTRICT CONTROLLED" ISSUERS

Issuers who are habitually late in remitting funds or are otherwise problematic are generally placed under district control. Ministry policy states that licences should not be directly supplied to issuers whose accounts are "district controlled". Licences would be sent to the district office, which would control the supply of licences to these issuers. This enables the district licence issuing clerk to monitor and control individual accounts. In addition, issuers who have resigned or discontinued issuing licences should not receive any licences.


We determined that at least \$300,000 of 1992 licences were sent to 32 issuers whose accounts had been coded "District Controlled" or "Resigned". These accounts had been so designated between 8 and 28 days before licences were shipped from the Ministry warehouse in November 1991.

### PROVINCIAL PARK FEES

The 261 provincial parks charge entrance fees and fees for the use of park facilities. There are six types of parks:

- wilderness;
- nature reserves;
- historical;
- natural environment;
- waterways; and
- recreation.

Revenue from provincial park fees amounted to \$14 million in 1991/92. Provincial park fees ranged from \$5.37 for a daily vehicle permit to \$14.72 for campsites with electricity. Seasonal permits such as a summer vehicle permit cost \$32.24. Rates vary according to season.

Based on our audit, we found that controls for the park accounting system were satisfactory, and that park permits were sequentially numbered and properly accounted for. 

## RESPONSE

The Deputy Minister of Natural Resources responded to our report on August 12:

### TIMBER STUMPAGE CHARGES

*I am pleased to note your comment that controls over revenue collection were satisfactory, and related policies and procedures were for the most part followed. The audit report notes that opportunities exist for administrative changes that will yield additional revenue. We intend to investigate these and other opportunities for revenue generation in the coming months.*

*The Ministry's Comprehensive Revenue Review Project and a proposed evaluation of the Wood Measurement Program in 1992/93 will be examining various means to value the forest, and will be*



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examining the basis for Ontario's current generation of stumpage revenue. We expect that this examination will provide the mechanism for Ministry review of the current stumpage fees and process.

The audit report recommended that the Ministry invoice for wood measured during the first three weeks of a given month by the end of the same month in order to gain an estimated \$400,000 in interest annually. In fact, many larger and established companies are already transferring data electronically via disk/magnetic tape. We are now testing a process with three companies which are initiating data transfer via modem. Completion of this modem testing, along with the implementation of the new Ministry Integrated Finance and Administration System, will allow a restructuring of the existing invoice processing schedule. Invoice generation as recommended in the audit report should be available for our 1994/95 season.

The issue of developing criteria for the calculation of bonus prices and ensuring that these criteria are applied on a consistent basis will be examined through the Comprehensive Revenue Review project. There is a complex set of existing arrangements with forest companies which has to be examined. One aspect of these arrangements, such as bonus prices, should not be reviewed in isolation without consideration of the full impact of any proposed changes.

## HUNTING AND FISHING LICENCES

We generally agree with your assessment. We are taking action in the short term to address some of these deficiencies and we are implementing a new Outdoors Card in 1993 which will lead to the establishment of a new Point of Sale System for 1994/95.

Beginning in 1990, the Ministry decentralized the responsibility for hunting and fishing licences to its 47 district offices, including the administration of revenue collection. In support of the decentralization, a new District Revenue and Accounting Management System (DRAMS) is being implemented across the Province.

DRAMS allows districts to input their own information locally, producing more timely statements, and providing an improved ability to monitor accounts. Some districts have been on the new system for up to two years and have noted a significant improvement in the timeliness of information and their ability to monitor licence issuer accounts. Other districts are not yet on the new system and are experiencing problems because of unreliable and untimely information from the current system which requires districts to manually transmit data to Main Office for input into the licensing and revenue system. When these districts convert to DRAMS, these problems will largely disappear, giving improved results for this function.

In April 1992, when we were advised of the preliminary audit findings, all Regional Directors were instructed to develop an action plan to deal with delinquent licence issuers. The clean up is currently underway. Also, we are continuing to implement DRAMS in the remaining Districts. Action will be taken to remind licence issuers and District staff to comply with existing policies and procedures to remit revenues on a timely basis.

The Ministry plans to issue the Outdoors Card, a new identification card, to all 1.5 million active hunters and anglers in Ontario on January 1, 1993. The Outdoors Card will be a mandatory part of the licensing system and it is being introduced to make Ontario fishing and hunting system more efficient for card holders and issuers.

The new Outdoors Card was recommended in a report prepared by [the] Parliamentary Assistant to the Minister, who developed recommendations after discussions with the user community. The



hunters and anglers wanted a weatherproof, easy-to-read licence, fewer pieces of paper to carry and the ability to purchase all of their licences at one time. In addition, the hunters wanted less chance of mistake in the adult moose tag validation draw.

It will also improve the Ministry's licensing system, giving better accounting control over issuers, a better data bank on licence holders, improved collection of funds from issuers in default, decentralized management of issuers, centralized control of funds and collections from defaulters, and reduced workload in supplying licences.

The next step is to establish licence issuer system, called a Point of Sale (POS) system for 1994/95. Under the new system, an issuer will lease a computer terminal which can be used to verify a person's entitlement to purchase a particular licence. It will also issue the actual licence in computer-generated form and immediately record the accounts receivable from the issuer. The POS system will collect licence revenues automatically via Electronic Funds Transfer, using direct debit of the issuer's bank account. The POS system will update the issuer's account automatically, rather than having the issuer file a monthly report as is currently done.

Each month, issuers will receive statements of their accounts showing all licensing activity and the electronic funds transfer debits processed. This will eliminate both the need for the issuer returns and for reconciliation of outstanding balances. This should result in a three- to four-month gain in the receipt of monies from licence issuers.

Regarding administrative costs, the audit report questioned the need for the existing network of 4,200 licence issuers in the province, especially those selling a small number of the licences and who are located close to other issuers.

In June 1992, the Minister placed an indefinite moratorium on the appointment of new fish and wildlife licence issuers. The only exceptions to this moratorium that are to be considered are requests regarding business transfers involving change of ownership of existing large volume and strategically located licensing outlets, and the Minister may consider the appointment of a new licence issuer where a significant deterioration of customer service exists in an area. This moratorium is expected to continue until we develop and fully implement the new Outdoor Card. This new system should prove much more effective than the existing system.

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## PUBLIC TRUSTEE OF ONTARIO:

# Administration of Trusts and Estates

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The Public Trustee performs duties under approximately 30 provincial and federal statutes. The primary function of the Public Trustee's Office is to administer about 21,000 clients' trusts and estates with a total asset value of \$550 million. This includes approximately 17,000 trusts of persons who are mentally incompetent to manage their own financial affairs, and 4,000 estates of deceased persons, primarily intestate, who have no known relatives residing in Ontario. The Office has a staff of about 175 persons and an annual expenditure of approximately \$11 million.

Our audit objective was to assess the adequacy of procedures established by the Office to administer trusts and estates.

Our audit concentrated on trust administration, close-out of trust clients' accounts, and administration of deceased people's estates. We examined a representative sample of 125 client files, had discussions with the Office's staff, and reviewed internal reports.

## CONCLUSION AND FINDINGS

We concluded that the procedures established by the Office to administer trusts and estates were unsatisfactory. Of the 125 files we examined, about 55 per cent indicated deficiencies in the way the Office administers its clients' affairs.

While we recognize the Office is carrying a heavy workload, we believe that greater

care and diligence is required in administering the trust and estate affairs.

Several of the deficiencies discussed in this report were reported by us in 1988. Limited corrective action has been taken to date to correct the deficiencies.

## GENERAL

Unsatisfactory administration common to both trust and estate clients included:

- The Office had a heavy workload which left staff with little time to attend to clients.
- Clients' assets were often not completely or properly identified or collected. For example, after we questioned the extent of a client's assets, the Office found that the client owned additional real estate worth several million dollars.
- Clients' real estate properties were not being regularly inspected or maintained, and rent was not being regularly collected on behalf of clients. For instance, the Office had to write off \$20,000 representing 18 months of rent owing to a client.
- Clients' effects such as furniture, appliances and automobiles were often disposed of for little or no proceeds. For example, a client's estate received only about \$700 from the sale of the entire contents of a house even though the Office staff had valued the items to be worth \$15,000.

## TRUST ADMINISTRATION

Besides matters common to both trusts and estates, we found problems relating specifically to the ongoing administration of trust clients:

- Monitoring of services to clients was inadequate. Also, there was no regular review of files to help ensure that important matters were being addressed.

## CLOSE-OUT OF TRUST CLIENTS' ACCOUNTS

We concluded that inadequate service was being provided to clients and heirs by the Close-Out section, with unacceptable rates of lost files and slow service.

- There were often long delays in getting assets to discharged clients or to deceased clients' heirs. At the time of our audit, more than 1,500 files were awaiting close-out action, even though the Office's jurisdiction had ended over one year earlier.
- Misplacing client files was a serious problem since these files contain essential information to assist in returning assets to clients or their heirs.
- In many cases, the Office had made inadequate attempts to contact some heirs, and no attempts to contact other heirs.

## ESTATE ADMINISTRATION

- In about half of the cases we looked at, there were few or no attempts to identify or locate heirs. When heirs are not located, the distribution of estates is delayed. If not distributed after ten years, entire estates become payable to the Province.

## POSITIVE DEVELOPMENTS

- The Office installed a computer system which was proving useful to staff in their monitoring of clients' affairs.

- Clients' stock investments are now regularly reviewed by a stock brokerage firm to help ensure that clients' investments are better managed.

## BACKGROUND

The administration of clients' trusts and estates is carried out by three sections within the Office:

- the Trust Administration section which manages and safeguards clients' assets and arranges payment of clients' liabilities;
- the Close-Out section which administers the closing out of accounts of trust clients; and
- the Estate Administration section which administers estates of deceased persons.

All three sections are assisted by various support sections such as Legal, Investigations, and Insurance and Pensions.

The Office charges clients an administration fee. In addition, clients pay for specific services provided by the Office or outside parties. In the 1991/92 fiscal year, the Office earned a total revenue of approximately \$15 million from interest earnings and administration fees. After expenses, the Office realized a net income of \$4 million.

Under current legislation, the Public Trustee is primarily responsible for the management of clients' financial affairs. Proposed new legislation is expected to expand the Public Trustee's role in making personal care decisions on behalf of mentally incapable clients.



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# COMMENTARY

## GENERAL

### WORKLOAD

Over the last four years, the total Office staffing increased by approximately 10 per cent. However, this increase has not significantly eased the workload of the staff. For example, in 1988 we reported that increased workload had prevented the Trust Administration section from routinely reviewing trust files. At the time of our audit, the section had a staff of 35 people, almost twice the number employed in 1988. The section has 11 units with each unit being responsible for approximately 1,200 client files. Thus, despite the increase in staff, a staff member can still only provide a few hours of attention to each client per year.

The heavy caseload has resulted in work backlogs and has contributed to many of the problems identified in this report.

### IDENTIFYING AND COLLECTING CLIENTS' ASSETS

Clients' assets are identified and collected using reports prepared by staff investigators and information received from outside parties such as psychiatric hospitals.

Investigations typically involve visiting a client's residence to search for and gather the client's assets, important papers and records. During the 1991/92 fiscal year, the Office's six investigators carried out about 1,300 investigations. About 80 per cent of these investigations were at the request of the Trust Administration section and 20 per cent were at the request of the Estate Administration section.

At the end of each investigation, the investigator provides the requesting section with a written report. The report lists the assets and documents that were found, along with suggestions on what matters need to

be further acted upon. The investigator also estimates the value of various clients' assets such as real estate, vehicles and furnishings.

The Office's investigators perform much of the work involved with initially identifying and collecting assets. With rare exceptions, the investigations are done by only one investigator. Such an arrangement puts a heavy burden on the investigator if anyone questions why an item was not found. In 1986, the Audit Services Branch of the Ministry of the Attorney General recommended that to strengthen internal control two investigators should be present at all times. There is a strong case for implementing the internal audit recommendation. Costs of investigations are charged to clients.

Additionally, the Office does not have any procedures to ensure that the Office's own investigations or information received from outside sources are promptly followed up.

We noted the following examples which illustrate the lack of control over the identification of clients' assets:

- A client owned land valued at about \$5 million based on professional appraisals requested by the Office. We noted that the client's file contained correspondence from a realtor indicating that the client may have owned more land. When we questioned the Office, the matter was investigated further and it was discovered that the client owned an additional 40 acres of land. We estimated this land to be worth at least \$4 million.
- An investigation at a client's home indicated that the investigator had not looked at all the papers in the house and that a further search should be conducted. Soon after, the Office learned from a trust company that the client owned additional securities worth about \$180,000. However, a further search was not performed until



one year later, at which time the investigator located the additional securities.

The Office also has the responsibility to protect and manage clients' assets. We noted shortcomings in efforts to collect assets. For example:

- The Office had obtained information that a client's assets included about \$100,000 in term deposits and \$60,000 in cash and Canada Savings Bonds at a bank. The Office requested the bank to remit the assets but received only the term deposits. The Office did not collect the cash and Canada Savings Bonds. Two years later, someone who claimed to have authority withdrew these assets from the bank.

After a further three years, the Office was faced with legal action from the client's beneficiaries for not collecting all of the assets. The Office informed us that the case was settled out of court with other defendants agreeing to repay the beneficiaries, and the Office agreeing to pay some of the plaintiff's legal costs.

- The Office was repeatedly notified by Veterans Affairs Canada that it was holding pension funds of about \$85,000 for an estate client. The Office responded to the first notification saying that the file was already closed and that there was no useful purpose in re-opening the file to receive funds. After a year of receiving objections from Veterans Affairs, the Office eventually accepted the funds and paid them to a beneficiary of the estate.

We recommended that procedures be established to ensure that clients' assets are identified and collected in a timely and complete manner.

## MANAGEMENT OF REAL ESTATE PROPERTIES

The Office is responsible for approximately 800 real estate properties with a value of about \$80 million. The majority of these properties are residential homes and the rest are other types of properties such as vacant land, farm properties and cottages.

The Office does not ensure that clients' properties are regularly inspected or maintained. In cases of rental properties, there were no arrangements to have someone go to the properties to collect rent each month or to initiate annual rental increases.

For example:

- The Office did not maintain a client's house to meet even the minimum standards of a municipality. In June 1988, the municipality issued a notice of property defects listing 22 items in need of repair. Despite repeated notices from the municipality, the Office did not repair the deficiencies. Then, in November 1989, the Office charged \$600 to the client for fines and legal expenses upon pleading guilty of disobeying the municipality's orders.
- The Office did not arrange for lawn and hedge maintenance of a client's residential property even after a neighbour complained about the property's unsightly condition. Consequently, the municipality billed \$300 for carrying out some of the maintenance work which the Office charged to the client.
- The Office did not send anyone to a client's premises to collect rent for many months. Subsequently, the Office wrote off about \$20,000 representing 18 months of rental arrears owing to the client.

We recommended that the Office consider engaging a professional property manage-

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ment firm. The firm's fees would be chargeable to the clients.

## SALE OF CLIENTS' EFFECTS

The Office engages the services of auctioneers to dispose of clients' effects such as furniture, appliances, paintings and other household items. About 200 auction sales are held each year.

The auctioneers take possession of the items to be auctioned and, after the auction, remit a cheque to the Office for the net proceeds of the auction together with an accounting statement. The statement details the items sold, the amount received for each item and the amount of the auctioneers' commission, cartage and dumping charges.

We concluded that the Office did not adequately monitor the activities of auctioneers:

- Auctioneers have not been competitively selected by the Office. The Office did not keep a list of auctioneers it has dealt with over the years or a record of the number and value of transactions with each auctioneer. Concerns were expressed to us by staff about excessive charges being imposed by some of the auctioneers being used. For example, in one case, an Office investigator had valued a client's effects at \$15,000. The auction sale raised only \$3,000 but after deduction of the auctioneer's commission and cartage charges, the client received only \$700.
- In another case, the proceeds from an auction were approximately \$2,000 but the client received nothing. In fact, the client was charged approximately \$400 to cover the shortfall in the auctioneer's commission and cartage charges. Both cases were questioned by the Office's senior management. However, there was no documentation on file to explain whether the Office was satisfied

with the performance of the auctioneers.

- Auction sales were rarely attended by the Office's staff.
- There were no comparisons of auctioneers' reports with the clients' asset listings to ensure that all saleable items were either sold or returned to the Office.
- The Office did not ensure that sale proceeds were submitted promptly by auctioneers. As of January, 1992 there were about 50 accounts for which the Office had not received any payments from the auctioneers. Fifteen of the accounts were over six months old. One of these accounts was outstanding for over two years.

We recommended that controls over auction sales be strengthened.

## TRUST ADMINISTRATION SERVICE TO CLIENTS

Service to clients is an important element of the Office's functions, especially because many of the clients are ill or disabled.

Providing adequate service to clients involves communicating effectively with clients, meeting their financial needs, promptly responding to their problems, and making reasonable decisions concerning their money. We had concerns regarding these areas. For example:

- The Office does not distinguish between clients who are in need of considerable ongoing attention and those who require relatively little attention. Trust Administration staff acknowledged that there were some files which had not been looked at for many years.

Trust administration staff have never met most of their clients. While the staff agreed that in-person meetings would help them to better assess clients' needs, they indicated that there was no time to meet with the clients.

Most client contact was by letter or by telephone.

- We questioned how the Office ensured that clients' financial needs were being adequately met. Files lacked information showing how the Office had determined the amount of monthly allowances being paid to clients to meet their food, transportation and other needs.

In one case, a client had the monthly allowance payment cut from \$900 per month to \$400 per month. There were no explanations on file as to why the payment was cut nor any analysis showing how the amounts were calculated. The client had complained to a lawyer that funds were not at the client's disposal, and that the client had to depend upon others for even daily food.

- The Office's procedures were inadequate to ensure that clients' problems were promptly resolved. This was the case even when the problems had been identified by the Office's own investigators.

There was no regular review of files to determine changing circumstances and to ensure that clients' problems were addressed. Trust Administration staff generally only looked at a file in response to a question or event that they had been informed about. We noted instances of unresolved problems which should have received prompt attention:

- In 1989, an investigator pointed out that the central heating in a client's home was inoperative and that the house needed considerable repairs. At the time of our audit, no corrective action had been taken.

Furthermore, the investigator had also suggested calling in the public health authorities. Nothing had been done until we pointed this matter out to the Office.

- A client had been billed \$6,000 per month since November 1991 for residing in a private nursing home. About \$4,500 of this cost was to pay for a full-time attendant from a nursing agency. The attendant supervised the client's allegedly excessive smoking habit and aggressive behaviour. Under this arrangement, the client's total assets of about \$100,000 were being rapidly depleted.

From the beginning, the Office had recognized a need to quickly relocate the client. However, at the time of our audit, the Office had made only a limited attempt to find alternative accommodation for the client.

- The Office's procedures to ensure that clients received goods or services at a reasonable cost were inadequate. To illustrate:
  - The Office often did not select goods or services for clients on the basis of competitive selection. For instance, since 1989 all clients' homes have been sold through one realty company which was not competitively selected. During this time, the selected realtor received about \$1 million in commissions on sales of over 200 clients' real estate properties. If a competitive selection process had been used, the Office might have been able to obtain a more favourable commission rate, resulting in higher net proceeds for clients on the sale of their homes.
  - The Office often did not verify the legitimacy and accuracy of billings to clients' accounts. For example, there were errors in billings from nursing homes which were never noticed by the Office. In one instance, a \$1,000 payment was not credited to a client's account. The



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Office contacted the home and it admitted to having made an error.

We recommended that the Office review its current practices to improve service to clients.

## CLOSE-OUT OF TRUST CLIENTS' ACCOUNTS

The section has approximately 15 staff who handle about 1,800 accounts a year. About 3,000 clients' accounts are currently waiting to be closed out by the section.

The need for closing out a client's account occurs when the Public Trustee's authority ceases either because the client is deemed legally competent to manage his or her own affairs or someone else is appointed to manage the client's financial affairs, or because a client has died.

### CLIENTS' ASSETS

In 1988, we reported that the Office was too slow in getting clients' assets distributed to persons legally entitled to receive them. We noted that at the time of our 1992 audit, the delays had worsened.

We mentioned in 1988 that the Close-Out section had about 500 files for which the Office's jurisdiction had ended for more than a year. At that time these files represented 30 per cent of all files awaiting close-out action. These figures had risen substantially by the time of our audit to over 1,500 files, or over 50 per cent of all files waiting to be closed out. In 1991 alone the section's caseload increased by 600 more cases than the number of files closed.

The Office gives discharge cases priority over files of deceased clients. However, there were significant backlogs even in discharge cases. For example:

- A client was ruled to be competent to manage the client's own affairs in 1988. However, even after more than three years, assets totalling about \$10,000

were never returned to the client. When we asked the Close-Out section about this case, we were told that the section had forgotten about this client. On our request, the section looked at this case and stated that they could not now readily return the assets because the client's current whereabouts were unknown.

- A client was discharged in March 1988, at which time the client signed a form to receive a \$3,000 cash balance. The money was never forwarded to the client. The Office has lost track of the client's whereabouts.

### CLIENTS' FILES

The Close-Out section was often slow in locating files we requested and in some cases could not find the files at all. This problem was also reported by the Audit Services Branch of the Ministry of the Attorney General in 1989.

The Office's staff acknowledged that misplacing close-out files was a major problem. One staff member indicated that one third of the section's staff time was spent on trying to locate files.

Other sections of the Office used a computerized file tracking and storage system. Such a system should be considered for the Close-Out section.

### COMMUNICATION WITH HEIRS

We found many cases where there had been inadequate attempts to contact heirs following the death of clients. We noted that:

- Heirs were known but there was often no evidence of attempts having been made to communicate with them. There was a lack of follow-up on correspondence when no replies were received or when letters were returned undelivered.

For example, a client with an estate valued at about \$190,000 in 1992 dollars



died in 1986. Over five years later this account still remained to be closed out. The Office attempted to contact only one out of eight identified relatives. There was no follow up to contact even this one heir after a 1987 letter was returned undelivered.

- A client with an estate valued at about \$135,000 died in 1987. The client's file indicated that the deceased had a sister and grandchildren. However, there was no evidence that the Office had tried to contact them.
- Contacting heirs was often hampered because the Office had not performed an exhaustive search for testamentary wills of clients when they were still alive. Also, in some cases, the Office had obtained wills but had lost them.

We recommended that the Office increase its efforts to communicate with heirs.

## ESTATE ADMINISTRATION

Estates are administered by three estate officers of the Estate Administration section, with the support of three lawyers. The section has about 4,000 clients with assets valued at about \$75 million. These clients consist primarily of estates of persons who have died without a will who do not have known relatives residing in Ontario.

### LOCATING HEIRS

The Office did not have any procedures for conducting an exhaustive search for heirs. Thus, many essential ways to find heirs are often not used. Specifically, we noted that the Office was inconsistent in its use of experts, such as genealogists, to search for family members. The fees of such experts are borne by the estate and not the Office. The lack of searching for heirs could put the Office in a conflict of interest situation because the assets of an estate become payable to the Province after ten years from the date of death. Over the past twenty

years, the Office has paid about \$18 million to the Province from undistributed estates.

To illustrate:

- The Office had not identified any heirs for an estate worth \$600,000 which the Office had been administering since 1990. Even though this was a large estate, the Office had not used the services of a family search expert.
- The Office administered an estate worth about \$270,000 since 1982. The Office also managed the estate between 1974 and 1981 while the client was still living. Even though the Office was involved with the client for over 15 years, the file contained no evidence that any attempts had been made to locate possible heirs. The deceased's spouse, who was also a client of the Office, stated in 1976 that the deceased had a child. However, there was no evidence that the Office had ever investigated the possibility of a surviving child or grandchild.
- An estate worth about \$120,000 had been administered by the Office since 1982. In 1989, the Office engaged a family search expert to report on possible heirs. The expert checked for relatives and indicated that the nearest relatives were likely to be an undetermined number of second cousins. The Office did not obtain a further investigation to locate or identify any surviving second cousins.

We recommended that the Office develop a policy requiring consistent efforts to search for heirs.

## POSITIVE DEVELOPMENTS

### NEW COMPUTER SYSTEM

In May 1991 the Office implemented a new computer system which provides instant access to clients' current and historical information. Office staff can now make more informed decisions about clients'

affairs. The previous computer system generated most reports on a monthly basis only.

## CLIENTS' STOCK INVESTMENTS

As of March 31, 1992 clients' stock holdings amounted to approximately \$16 million. In the past there was no professional review

of clients' stock portfolios. A stock brokerage firm now regularly reviews all clients' stock investments. The firm, engaged in 1991, recommends which stocks to hold and which to sell. This arrangement should help to ensure that clients' investments are better managed.



## RESPONSE

The Public Trustee responded to our report on September 18:

*Some general observations:*

- *The deficiencies identified occurred over five to eight years. They did not occur all in one year. During that time we would have opened 2,500 new files and closed a similar number annually. We have a constant file count of 21,000 files.*
- *This office has an enormous workload that has increased over the last five years.*
- *This office has carried out a number of special audits and reviews since 1988 with a view to identifying backlogs and correcting them.*
- *This office has undergone a series of special projects over the last five years which have stretched our resources. These were in addition to our daily workload. For example, the scoping, tendering, contracting, designing, construction, training and implementation of the Computer System Project was a continuous two-year super project that was carried on over and above the daily workload of this office throughout 1989 and 1990. It is this project, more than any other, that caused the long-term distraction from our normal duties.*
- *This office paid all of its expenses over the last five years, and transferred \$81 million to the consolidated revenue fund.*
- *Our clients have special service needs and they require a large "social work" component.*
- *This office has been under annual hiring freezes and constraints since 1988.*
- *We have given special priority to our most needy clients by setting up our Family Benefits Section. This is four staff concentrated to help 700 of our most needy clients.*
- *We have a priority system of serving clients. New files get top priority. Trust staff establish priorities on a daily basis.*

## GENERAL

### IDENTIFYING AND COLLECTING CLIENTS' ASSETS

**Recommendation:** *Two investigators should be used at all times to prevent theft and allegations of theft.*

- *This is an understandable recommendation. No theft or allegations have been made. It would result in double charges to clients. Usually our investigators enter onto a client's premises with*

family, landlords, etc. Often our investigations are conducted long after other people have had access to our clients' homes.

**Recommendation:** Identify and collect clients' assets in a timely and complete manner.

- We agree. We have established a full-time internal audit program to monitor this.

## MANAGEMENT OF REAL ESTATE PROPERTIES

**Recommendation:** Use outside professional Property Management firm to manage clients' property.

- We agree. The tender is being prepared. This will result in costs to clients.

When it is remembered that our clients' 800 properties are located all over the Province of Ontario, it is easier to understand why our clients' properties are not regularly inspected or maintained. We do inspect property at the outset and develop an administration plan for the property. Often our clients are asset rich (they may own a house or farm) but they are cash poor and they have no funds to repair or maintain their property. The Public Trustee has no funds to maintain or repair the properties for them. If the property is to be kept then monies can be raised by a mortgage but the client usually can't pay the mortgage. The only option here is a reverse mortgage, the arrangement of which is time consuming and difficult. Usually the reverse mortgages are offered for only five years with a full pay back at that time which our client won't be able to meet.

Our client may only be a joint owner of property which would then require the concurrence and contribution of someone else to repair or maintain the property which is not always obtained. Therefore knowing about property and knowing that it requires repair are only the first steps in a complex and costly process which can be unaffordable to most of our clients.

Where we know there are tenants this office should set this up as a receivable and collect the rents without question. It may be difficult to pursue annual increases because the tenants are often related to the client.

We have decided to tender our clients' real property management to an outside source. Internal and external repairs, maintenance, grass cutting, rent collecting, winterization, etc. can all be done province-wide by professional property managers whose fees and expenses can be charged back to the individual estates or trust assets directly. This will mean a significant additional burden to each property owner and may have to result in a reduction of our management fees that we charge the client. This process will be completed this year.

## SALE OF CLIENTS' EFFECTS

**Recommendation:** Should have tighter controls over auction sales.

- This was reviewed in 1990. This is desirable but difficult. Perhaps property managers can do this.

The discrepancies between our investigators' assessment of the worth of the contents of a house and the ultimate net proceeds from the auction may be explained in a number of ways.

- Our investigators are not professional appraisers and are only giving a 'ball park' assessment of the contents worth.
- Not all the goods listed by our Investigator at the time of inventory taking were sold ultimately by auction. Some may have gone with the owner to a nursing home or have been bequeathed in a Will and are put in storage.



- The costs of cleaning out our clients' properties are extensive and often include cartage and 'dump' charges or special charges for environmentally unsafe substances which costs, along with the auctioneer's costs described above, are deducted from the sale proceeds.

## TRUST ADMINISTRATION

### SERVICE TO CLIENTS

*Recommendation:* Identify clients by the level of attention they need.

- This is done with all new files which get priority. It is also done on a daily basis. Better file monitoring may improve this. Province-wide contact with clients can only be achieved by local offices. The FBA clients have been segregated already.

*Recommendation:* Improve service to clients.

- We would like to do this. We must strike a sensible balance between money/asset administration and social worker role. This is difficult. Obviously more resources are required.

## CLOSE-OUT OF TRUST CLIENTS' ACCOUNTS

### CLIENTS' ASSETS AND CLIENTS' FILES

*Recommendation:* Eliminate delays in "Close-out" Section.

- We agree with this. We have made two major re-organizations to deal with this. We require additional skilled staff.

### COMMUNICATION WITH HEIRS

*Recommendation:* Increase efforts to communicate with heirs.

- We agree. This is very time consuming and, interestingly, heirs do not readily come forward. Staff have been encouraged in the past to do this. We may achieve this through our plan to out-source heirship searches generally.

## ESTATE ADMINISTRATION

### LOCATING HEIRS

*Recommendation:* Estates Administration to expend greater effort to look for heirs.

- We agree. This will be out-sourced and charged to estate. We have distributed 55 per cent of all crown estates in the past year. This is a substantial increase.

There is no legal duty for this office to carry out an extensive heir search activity of "crown" files. The courts, if asked on an application for advice and guidance, will not make a finding that an estate has "escheated" to the Crown. Other Public Trustees canvassed across Canada reported very little, if any, activities carried out by them to search for heirs. If estates are turned over to "heir tracers" they will often demand and get between 30 per cent to 50 per cent of the estate from heirs. Heir tracing is immensely time consuming and costly. We do not have the staff for this activity.

Nevertheless, it has been decided that this activity will be out-sourced to private legal firms to carry out the work with direct charges being made against the estate. They will retain genealogists, place



newspaper advertisements and communicate with foreign Consulates in an attempt to create activity in this area. In most files this will not produce exhaustive, conclusive proof of heirship, but it will serve to demonstrate activity and to eliminate the perceived conflict of interest that this office might have administering those files that end up escheating to the Crown ultimately. The outsourcing of this work will be by tender and should be completed this fall and will likely result in costly charges against each estate.

We have reviewed all of the files referred to and made corrections. Our failure to deal with details is a matter of monitoring, work load and staffing and the fact that our office was focused on the new computer system for two years.

The deficiencies occur over a long period of time. In the best of all worlds they would not occur. The changes described above should help our workload and, as a result, improve the service.

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## POSITIVE DEVELOPMENTS

You have mentioned two significant positive developments in your report. We like to think that there are many more, such as these which have been listed previously:

- Implementation of Personal Needs Allowance system for the Ministry of Community and Social Services for 7,000 clients;
- Complete Revaluation of Real Estate;
- Appraisal of all Jewellery, Coin and Stamp Collections;
- New Banking Services Tender and Contract; and
- Implementation of policy and procedures of GST - (56,000 cheques annually).

To be fair to our staff and to our clients the office will require additional staff.

# Employer Health Tax

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The Employer Health Tax (EHT) was introduced to replace the Ontario Health Insurance Plan (OHIP) premium system of health care coverage by taxing the payrolls of employers. There are some 370,000 active employer accounts administered by 132 staff at a cost of \$10.6 million in fiscal 1991/92. EHT revenues for fiscal 1991/92 were \$2.65 billion.

We assessed the Ministry of Revenue's systems and procedures to collect all the Employer Health Tax (EHT) to which the Province is entitled.

Our conclusion and findings are based on a review of tax roll maintenance, compliance with tax legislation and payment processing activities at the head office of the Employer Health Tax Branch and the largest three of its six regional offices. Together, these three regional offices administer over two thirds of all EHT accounts.

## CONCLUSION AND FINDINGS

The Ministry had about nine months to design and implement the Employer Health Tax program. Understandably, its initial emphasis was on installing the basic systems and procedures to collect this new tax. While it was successful in implementing these systems and procedures on time and within budget, controls to ensure that the Ministry was collecting all tax it was entitled to were less than satisfactory.

- There were efficient systems and procedures to ensure that all employer

remittances were recorded and deposited on a timely basis.

- The Ministry did not audit employer payrolls to verify the accuracy of the EHT remitted. The Ministry estimated that lost revenues from both under-reported payrolls and from unregistered employers is about \$140 million annually. Several options should be pursued to obtain audit coverage.
- Employer account balances contained significant errors because the system processed remittance forms which had not been properly completed by employers. Consequently, employers received erroneous statements, about \$5 million had been incorrectly credited to employer accounts, and collection efforts have been significantly delayed.

## BACKGROUND

In mid-1989, Management Board approved expenditures of \$47.3 million to the end of April 1992 to implement and operate the Employer Health Tax. Once approved, the Ministry had nine months to design and put in place a computer system and administrative staff to begin collecting the tax in January 1990. The *Employer Health Tax Act* was passed on December 19, 1989.

The Employer Health Tax was operational in January 1990 and three-year costs to April 1992 totalled \$44.9 million, or \$2.4 million less than budgeted.

While revenue generated from OHIP premiums in 1989/90 was \$1.4 billion, revenue from Employer Health Tax (EHT)

was \$2.66 billion in 1990/91 and \$2.65 billion in 1991/92.

There are nine graduated tax rates in effect, with the lowest rate of .98 per cent applying to those employers with a total annual payroll of \$200,000 or less. The highest rate of 1.95 per cent applies to those employers with a total annual payroll greater than \$400,000.

There are currently 370,000 active employer accounts on the tax roll. The Act requires the 33,000 employers having payrolls exceeding \$400,000 to remit monthly tax payments while the remaining 337,000 remit quarterly payments.

The Employer Health Tax is administered by 102 staff in six regional offices and an additional 30 staff members at the Branch's head office in Oshawa. All employer accounts are administered regionally through Tax Roll Administrators and Collection Specialists. Head Office processes remittances and annual returns. In addition, head office provides administrative, systems and legislative support to the regional offices.

## COMMENTARY

### DEPOSIT OF EMPLOYER REMITTANCES

All employer tax payments and remittance statements are processed by the Ministry's Taxation Data Centre. Employers may remit payments by mail, by hand delivery to a regional office or head office, have payroll agencies deduct the tax and remit it, or pay at their bank for forwarding to the Ministry.

We reviewed the processing of remittances by the Centre and found that:

- remittance payments were optically scanned into the system where possible to increase efficiency;
- duties were segregated between mail handling, data entry, and cash depositing activities; and
- receipts were deposited daily at the bank.

In addition, all deposits were reconciled daily by the EHT Branch to payments processed by the computer. We were satisfied that systems and procedures were in place and operating efficiently to ensure that all employer remittances were recorded and deposited on a timely basis.

## REGISTRATION OF EMPLOYERS

To build the initial tax roll of employers in the province, the Ministry mailed questionnaires to employers potentially eligible to pay the tax. These employers were identified from payroll data supplied by Revenue Canada to the Ministry under the existing Federal/Ontario Exchange Agreement of 1983. Based on responses to the questions, an employer would either be registered to receive monthly or quarterly statements requesting payment, or would be categorized as ineligible to pay the tax.

To update the tax roll with new employers and to change the status of those becoming inactive, the Ministry processes data provided by Revenue Canada 11 times a year. In addition, new employers sometimes voluntarily identify themselves to the Ministry before Revenue Canada provides the Ministry with data.

As of April 1992 over 3,200 questionnaires had not been responded to by employers. Our review of outstanding questionnaires at three of the six regional offices showed that they were not followed up on a timely basis. At two regional offices, 1,200 questionnaires were outstanding for more than 90 days. While one regional office had 99

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out of 365, or 27 per cent outstanding for more than seven months, the other had 530 out of 833, or 64 per cent outstanding for more than 11 months.

The third office encouraged employers not responding to questionnaires to do so by automatically registering them and sending statements requesting payment. The employer then had to contact the regional office to change the employer status if necessary. This office estimated that about 40 per cent of employers who had ignored all previous Ministry contact should have been paying the tax. If these results are representative, then about 1,300 more employers are active and should be registered and paying EHT. This excludes any employers who have also failed to register with Revenue Canada.

## AUDITING EMPLOYERS

To ensure registered employers pay all taxes that are due, audits are required to verify the accuracy of reported payrolls.

In its original 1989 submission to Management Board, the Ministry requested 66 auditors and five audit managers to cover 2.5 per cent of the tax roll annually. The Ministry estimated audit enhancement efforts of other taxation programs would increase the annual audit coverage to 3.5 per cent. However, the request for audit resources was not approved.

In 1991/92, the Province of Manitoba, with a similar payroll tax levied on employers with payrolls greater than \$600,000, recovered \$4.2 million or 2.2 per cent of tax revenues based on a 35 per cent audit coverage.

If only 3.5 per cent coverage were achieved in Ontario on employers with a payroll greater than \$600,000 per year, the effort would require only seven auditors at an annual cost of \$400,000. About \$5 million could be recovered.

However, the Ministry audits should also include smaller taxpayers. The degree of voluntary compliance varies directly with taxpayers' perception of the risk of being audited. In fact, the Ministry estimates, based on Revenue Canada's payroll audit experience with both registered and unregistered employers, that payrolls are under-reported on average by 5 per cent, meaning lost EHT revenues of about \$140 million per year.

Several options should be considered to obtain efficient and effective audit coverage while minimizing the burden placed on employers. These options include:

- co-ordinating or combining audit efforts with other Taxation Branches such as Retail Sales Tax or Corporations Tax. As EHT is less complex, some co-ordinated or combined audit work might be feasible to reduce the cost and frequency of employer visits; and
- co-ordinating audits and sharing results and information with the significant payroll audit functions of Revenue Canada and the Workers' Compensation Board.

We understand that information sharing arrangements are being planned by the Ministry and that legislative changes are being pursued to permit information exchanges with the Workers' Compensation Board.

## CORRECTING ACCOUNT BALANCES

The Employer Health Tax system generates statements either monthly or quarterly for 370,000 accounts informing taxpayers of the amount due and interest charges or credits.

As of April 1992, 45 of 120 accounts we tested in three regions were inaccurate. The major reason for these errors is that the system was not designed to cope with employers who record remuneration



incorrectly on the remittance forms. A number of problems have resulted.

## **OVERSTATED EMPLOYER LIABILITIES**

Despite carefully designed forms and reminders, several employers filled in cents on the remittance form where only whole dollars were to be reported. The optical scanner reading remittances recorded the whole amount as dollars. As a result, the employers' remuneration was inflated one hundred times creating a greater tax liability than actually existed.

The accounts receivable balance increased by almost \$900 million in one day alone in 1992 due to six employers making the same error. Assessments are automatically sent out to these employers requesting payment of the unpaid balance. We estimated over 2,500 accounts had the same problem.

While employer complaints about incorrect assessments may ensure accounts are subsequently corrected, mailing incorrect statements to taxpayers may damage the credibility of the Ministry as well as efforts to encourage voluntary compliance. We recommend that management examine the costs and benefits of other manual and automated reasonableness and edit checks prior to updating accounts and mailing assessments.

## **ACCURACY OF INTEREST CREDITS**

Another problem occurred when the employer did not fill in any amount of remuneration on the remittance form. The optical scanner was set up to interpret blanks as zeroes. As a result, the computer system believed the employer overpaid and calculated and compounded credit interest on a monthly basis to the account. We estimated that about \$5 million was

erroneously credited to employer accounts as a result.

The system has now been changed to calculate sufficient remuneration to offset any payments made when the payroll amount has not been filled in. Erroneous interest will no longer be credited in such instances. However, previous errors had not been corrected by the end of our audit in July 1992.

## **TIMELINESS OF COLLECTION EFFORTS**

Errors in employer accounts have also significantly delayed collection efforts. Although Ministry reports showed more than \$265 million in delinquent accounts as of April 1992, we estimated that less than \$26 million was truly owing due to processing errors.

In order to maximize the collection effort, Tax Roll Administrators must first analyze accounts to determine the correct balances before referring delinquent accounts to a Collection Specialist. This analysis was not always thorough. In fact, in a sample of 60 accounts deemed delinquent and referred to Collection Specialists at three regional offices, only 47 did in fact owe taxes.

Uncollected account balances were owing on average for 3.5 months, 5.5 months, and 9 months respectively in the three offices visited. In the office experiencing the shortest average delinquency we noted that 3 of 13 Tax Roll Administrators were devoted primarily to analyzing and correcting the accuracy of the region's account balances. In the other two offices, Tax Roll Administrators verified account balances on a part-time basis. Other offices may improve collection effort through a more dedicated approach to account analysis and correction.



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# RESPONSE

The Deputy Minister of Revenue responded to our audit report on August 27:

## REGISTRATION OF EMPLOYERS

*All mailed questionnaires are followed up. The EHT computer system automatically produces a repeat questionnaire if no reply is received within 30 days. If the second request does not produce a response within another 30 days, a reminder is automatically sent out. Outstanding questionnaires are then assigned to Taxroll Administrators for tracing action and telephone contact.*

*In line with the staff empowerment philosophy of the EHT Branch, regional offices are encouraged to experiment with procedures in the search for cost efficiency. This was particularly true at the outset of the program in 1990 and 1991. The most efficient and effective procedures will be consolidated in a Branch policy for general application.*

## AUDITING EMPLOYERS

*While we do not agree that the Manitoba experience is necessarily applicable to Ontario, the Ministry believes strongly that an audit function is essential in protecting the tax base, and is again pursuing funding for this, along with the program extension of health tax to the self-employed announced in the 1992 Budget. For various reasons, including the fact that payroll records are not examined in the normal course of corporations tax or retail sales tax audits, the Ministry does not believe that diversion of audit resources from other taxes would be cost effective. However, retail sales tax auditors have been used to verify EHT rebate applications in respect of fixed price construction contracts. Although the rate of tax is comparatively low, the Ministry has no doubt that an EHT audit function would not only pay for itself, but also reduce the net costs of administering the tax to a significant extent.*

## CORRECTING ACCOUNT BALANCES

*The current system does include automated edit checks including reasonableness tests, and a subsequent exception report is manually actioned daily; however, this area will be re-examined for potential enhancements as part of the new system design, later this year.*

*All significant erroneous interest credits were corrected prior to the system change in mid 1991, but no special summary record was produced. It would be possible, though costly, to write a special program to extract details of the corrections.*

*As noted above, flexibility and innovation by the individual regional offices are encouraged. Since there were no tested procedures at the outset of the program, pilot projects were undertaken. The results of these activities are evaluated by the Branch and adopted if found to be cost-effective.*

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## MINISTRY OF REVENUE:

# Property Assessment Operations

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3.17

The Ministry of Revenue spent \$102 million in the 1991 fiscal year on the property Assessment Field Operations Activity which is responsible for assessing all properties in 839 local municipalities in Ontario. These property assessments provide the basis upon which municipalities raise property and business tax, which amounted to \$13.1 billion in the 1990 calendar year.

Our objectives were to assess:

- whether procedures were adequate to ensure that assessment rolls were complete and delivered to the particular municipality on a timely basis as required by legislation; and
- whether assessment activities were being performed in a cost-effective manner.

Our audit was conducted both at the Ministry's Head Office and 5 of the 31 Regional Assessment Offices (RAO) and 10 sub-offices. We obtained information from other RAOs and municipalities by means of a questionnaire. We also interviewed officials from municipalities and the real estate industry, as well as the Assessment Review Board, Ontario Municipal Board, Association of Municipal Officers, and the Association of Municipal Tax Collectors.

## CONCLUSIONS AND FINDINGS

### COMPLETENESS AND TIMELINESS

Procedures to ensure timely delivery of assessment rolls were satisfactory. Assessment rolls were generally complete, except for property improvements and new businesses.

- Changes to properties were not assessed on a timely basis for inclusion in the assessment rolls.
- New businesses were not promptly assessed for inclusion in assessment rolls. It is estimated that inclusion of these new businesses on a more timely basis could result in as much as \$75 million in additional annual tax revenue.

### ASSESSMENT ACTIVITIES

Certain assessment activities, such as the reassessment of properties to market value, were performed in a satisfactory manner.

- Over 80 per cent of market value reassessment studies carried out by RAOs were accepted by municipalities. The objective of such assessments is to ensure that properties of comparable market values located in the same municipality pay similar property taxes.

However, the cost effectiveness of the reinspection function was less than satisfactory.

- On their initial visits to reinspect residential properties, assessors were unable to gain entry to over 55 per cent of homes. This is a substantial and inefficient use of assessor time.
- Approximately 80 per cent of assessors sampled did not feel that drive-by visual inspection (windshielding) was an effective method of performing a reinspection. Yet, 30 per cent of assessors sampled still practised this method of reinspection.
- Most RAOs have not instituted work performance standards to measure assessors' productivity.

## BACKGROUND

In 1970, the Province assumed responsibility for property assessment from municipalities because of inconsistent assessment practices and conflict between municipalities. The major responsibilities of the Assessment Field Operations Activity are to produce annual and supplementary assessment rolls for municipalities, reassess properties for market value, and conduct enumeration for municipal elections.

Each December the Ministry provides each municipality with an updated assessment roll listing the assessed values of all residential, commercial, industrial and farm properties in that municipality.

Each municipality multiplies the assessed value of each property and business by the appropriate mill rate to determine the amount of taxes due for that property or business. Mill rates are set by each municipality to ensure that the property and business tax revenues generated meet municipal requirements after all other

revenue sources have been taken into account.

In 1990, Ontario municipalities collected property taxes of \$11.6 billion and business taxes of \$1.5 billion.

Staffing and the number of properties on which assessed values were provided to municipalities for the past four fiscal years are as follows:

	Assessment Staff	Number of Properties (millions)
1988/89	1,826	3.5
1989/90	1,766	3.6
1990/91	1,800	3.7
1991/92	1,777	3.7

The Assessment Field Operation Activity is delivered by 31 RAOs located across the province. Each RAO is headed by a Regional Assessment Commissioner.

## COMMENTARY

### COMPLETENESS AND TIMELINESS

### DELIVERY OF ASSESSMENT ROLLS

The *Assessment Act* requires the Ministry to deliver annual assessment rolls to the municipalities before the third Tuesday



following the first day of December in the year.

As part of our audit, we reviewed the procedures used at five RAOs visited to ensure that they were able to meet the December deadlines. We also interviewed and surveyed municipalities to determine whether their assessment rolls were received before the specified time.

We were generally satisfied that the assessment rolls were received by the municipalities within the specified time limit. In only a few instances did we note that the assessment rolls were not returned on time, such as when the municipality had undergone a market value reassessment that year.

## CHANGES TO PROPERTIES

The total value of property improvements in Ontario was estimated at \$10 billion in 1991 (Statistics Canada). Building permits are required for most renovations, additions or alterations to a property.

Permits are issued by municipalities for safety standard reasons, and for monitoring and controlling changes to a property. A copy of the permit is forwarded to the RAO within which the property is located.

The *Assessment Act* requires that any changes with a value greater than \$5,000 (single or cumulative value of permits) be assessed. There is a two-year limitation period for recovering taxes owed if an inspection of the property results in a higher assessed value.

Our analysis of the Ministry's computerized building inspection status report file indicated that there were approximately 14,500 building permits over two years old with a total value of \$1.5 billion.

To test whether these properties had been reinspected within the two-year limitation period, we selected a sample of about 1,000 high value permits. We found that 375 of

these permits had not been reinspected within the limitation period.

Given this high rate of uninspected high value permits and the \$1.5 billion value of permits over two years old, total assessed property values were significantly understated. Consequently, mill rates in some municipalities may have been set higher than they would have been if building improvements had been assessed promptly.

## ASSESSMENT OF NEW BUSINESSES

Business assessment is levied against those persons occupying property for the purpose of carrying out a business. The assessment is calculated by multiplying the assessed value of the property by a business percentage rate specific to the type of business as outlined in the *Assessment Act*. The business assessment is then multiplied by the commercial mill (tax) rate to yield the business tax payable, which is in addition to the property tax.

We selected a sample of 90 new 1991 businesses from the Ministry's retail sales tax vendor permit database to test whether they had been promptly assessed for inclusion in the tax rolls.

The results of our tests indicated that while the majority had been properly assessed, about 10 per cent of these new businesses were not assessed promptly for inclusion in the municipal assessment rolls. Some of these businesses were already closed or out of operation before their assessments could be done.

Responses received from the questionnaires sent to municipalities indicated that collection of taxes from new businesses was a widespread problem. One municipality estimated it had been able to collect an average of about \$300,000 each year in additional taxes by ensuring that businesses had been properly assessed.

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In our discussions of this issue with the Association of Municipal Tax Collectors of Ontario, it was estimated that as much as \$75 million each year in business taxes had been lost by municipalities because new businesses were not being assessed on a timely basis.

We recommended that the Ministry implement the necessary procedures to ensure that all new businesses are assessed for business taxes.

## ASSESSMENT ACTIVITIES

### REASSESSMENT STUDIES

Inequities in assessment of properties occur when properties of similar market value in a similar class bear different rates of assessment and consequently, of taxation. In these situations, the base years for determining assessments are uneven, and the burden of taxation is not borne equitably.

For instance, an older property whose value increased considerably over the years may have a significantly lower assessed value than a new property, even though the older property may be worth more.

The *Assessment Act* provides for the Ministry of Revenue to carry out a reassessment program for the municipality whereby all properties are assessed based on updated market values. This program is designed to ensure that all similar properties of comparable market value will pay similar property taxes.

By resolution, a municipal council can request the Minister of Revenue to undertake such a tax impact reassessment study. The RAO within which the municipality is located will conduct the necessary municipal-wide reassessment study and present the municipal council with the results. The reassessment program is voluntary, and once completed, municipal councils are encouraged to analyze the tax consequences of any possible reassessment

before making a final decision. A council has the option of requesting the Minister to implement market value reassessment or rejecting the study.

For the three fiscal years 1988/89 to 1990/91, 122 out of the 146 completed studies were accepted, and properties in those municipalities are now being assessed based on updated market values. This represents an 84 per cent acceptance rate, which indicates that, in general, the reassessments were perceived as being fair, consistent, and defensible.

### REINSPECTIONS

The Ministry has not developed a formalized policy on the frequency of reinspections of residential properties. Reinspections of properties are done to determine whether any changes or improvements have been made which may affect assessed value.

Assessors can reinspect properties in one of various ways, including:

- physical visits to inspect the property; and
- driving through an area looking for external changes to properties.

#### Physical Inspection Visits

For the five RAOs visited, we reviewed inspection records to determine whether inspection of properties was being done on a timely basis and in a cost-efficient manner. Our review indicated that assessors were often unable to complete their planned inspections. For instance:

- assessors were not able to complete over 55 per cent of inspections on their initial visits as they were unable to gain entry into the property because the occupant was not present when the assessor arrived, or was not aware that the assessor would be calling. Ministry reports indicated that over 530,000

inspection visits were made in fiscal year 1990/91; and

- in one RAO, assessors were unable to gain entry in 11,000 out of 15,700 (70 per cent) of visits made.

Obviously, this method of inspection of properties was very inefficient due to wasted time. Furthermore, the property assessment records were not adequately updated, which could result in improper assessments and lost taxes. We did note that the success rate was higher in rural than in urban areas.

We recommended that the Ministry consider implementing other alternatives such as informing occupants before the planned inspection visit and implementing flexible hours so inspections could be done in the evening or weekends, when occupants are more likely to be at home.

### Drive-by Visual Reinspection

Drive-by visual inspection of a property (windshielding) could result in changes to the assessed value of the property without the benefit of an internal inspection.

At the RAOs visited, we interviewed assessors and surveyed others to determine whether windshielding was an effective method of conducting a reinspection. Over 80 per cent of those contacted expressed concerns with the use of windshielding as a method of reinspecting a property. Some of the concerns expressed were as follows:

- *"The ideal reinspection means a full interior/exterior inspection of a property by an assessor."*
- *"Do not feel that it is a good way to reinspect. There are too many changes that can occur but would not be seen from a drive-by."*
- *"When inspecting properties by way of windshielding, there lies an enormous possibility for error. The problems of this method far outweigh any possible benefits."*

However, 30 per cent of those assessors surveyed indicated that they were still practising windshielding as a method of reinspecting properties.

## MEASURING ASSESSORS' PRODUCTIVITY

The primary role of assessors is to make inspection visits to properties to establish an assessed value or determine whether changes have been made to the property that would effect its assessed value. Generally, assessors are assigned to a neighbourhood or on a functional basis according to the type of property such as residential or industrial.

For the five RAOs visited, we reviewed records kept for inspection visits made to properties by assessors.

Our review indicated the following:

- sufficient data were not maintained to assess the productivity of the assessors. For example, records often did not distinguish between initial inspection of properties and reinspections;
- only one RAO had formal work output performance standards in place to measure assessors' productivity; and
- in one RAO, the daily inspection visits to properties by an assessor averaged about 15 compared to a daily average of about 22 visits in the other four RAOs.

Overall, the management and reporting of assessment activities seemed very informal. Specifically, we expected that more formalized procedures would have been established for setting assessment priorities, work scheduling, and periodic reporting and evaluation of assessment results and coverage.

We acknowledge the fact that due to the mix of properties and geographic distances to be covered in an RAO, it may not be practical to establish a common set of work output performance standards applicable



to the entire Ministry. However, we do believe that standards for measuring assessors' productivity could be established for RAOs located within a geographic region, such as the western or central regions where a similar mix of properties exist.

We recommend that head office, in conjunction with RAOs, work to develop a standard assessment scheduling and reporting mechanism which could be used to evaluate assessment results and coverage, and set future assessment targets and priorities.



## RESPONSE

The Deputy Minister of Revenue responded to our report on August 11:

### COMPLETENESS AND TIMELINESS

#### DELIVERY OF ASSESSMENT ROLLS

*Your report indicates that "In only a few instances did we note that the assessment rolls were not returned on time." The Assessment Act provides the Minister with statutory authority to formally delay the return of the rolls. When the roll return has been delayed it has been within the provisions of the statutory authority and usually to permit municipalities to fully consider the impact of a proposed reassessment.*

### CHANGES TO PROPERTIES

*The assessment of new buildings, additions and improvements for the purpose of adding them to the assessment roll is taken very seriously by the Property Assessment Program. We recognize that "supplementary" assessment represents a significant source of new tax revenues to our municipal clients. We acknowledge that due to other workload pressures we are not always able to reinspect and value all new construction promptly.*

*In considering the audit results however, I think it is important to note that the 14,500 building permits over two years old represent approximately 10 per cent of the annual volume of permits. Furthermore the sample survey results which revealed that 625 of 1,000 properties had been reinspected would suggest that upwards of \$1.0 billion of the \$1.5 billion value of outstanding permits is properly outstanding.*

*In recognition of the importance of this activity the Ministry has as a priority for 1992/93 the development and installation of a new system to track building permits. The new system will improve the timeliness and accuracy of information within the offices thereby contributing to further improvement in the prioritizing of reinspection activity.*

### ASSESSMENT OF NEW BUSINESSES

*Your report recommends that the Ministry take action "to ensure that all new businesses commencing operations are assessed for business taxes" based on a sample which reflected 90 per cent of new businesses having been properly assessed while 10 per cent had not.*

*Business taxes are levied on occupiers of property who carry on business at rates that vary according to the nature of the business. To support this tax base, assessors conduct an annual "commercial enumeration" to identify the occupiers and the nature of their businesses and to determine*



whether changes have been made to the premises. This process produces an accurate roll at the time the enumeration is conducted. However, the transient nature of business tenancy results in an almost immediate degradation of the data and therefore, 100 per cent accuracy is not an achievable goal. The annual enumeration costs approximately \$5 million. Given rates of turnover in some businesses, greater frequency of enumeration would substantially increase the cost without addressing more than a part of the outstanding 10 per cent. In an environment of competing priorities for assessors' time, we have to balance an enhancement of this function with other workload priorities such as the previously mentioned follow-up on building permit inspections to produce the maximum return on our staff time investment.

## ASSESSMENT ACTIVITIES

### REINSPECTIONS

Physical inspection of residential properties is necessary to maintain the integrity of the assessment base. The ideal reinspection is a full interior and exterior inspection. However, as the report notes, assessors are frequently unable to complete their planned inspections because they are unable to gain access to property.

The Ministry uses visual inspections of exteriors to at least identify those properties where major additions or renovations have occurred thereby further justifying efforts to gain interior access.

The Ministry is experimenting with flexible hours arrangements at the present time and the results will be used to share "best practices" across offices. We are also prepared to consider a pilot study of the cost-effectiveness of planned visits.

### MEASURING ASSESSORS' PRODUCTIVITY

In response to your comments with respect to establishing standards for measuring assessors' productivity, the Commissioners' Management Committee, which is composed of seven Assessment Commissioners from Regions across Ontario, has established a sub-committee to deal with this issue. The goal of the subcommittee is to identify and define indicators of productivity within the key areas of program delivery, such as building permits investigation or appeals support, and to establish procedures to collect data on results in a cost-effective way. Under this system, standards would be established with variations for predominantly rural and predominantly urban Regions. A survey of the regions and head office was conducted and a preliminary report on the project delivered in January, 1992. Further definition of standards and pilot implementation are scheduled this fiscal year.

The Program has also established an advisory committee comprising both management and bargaining unit employees to study the impact of new technologies on the workforce. The advisory committee will review the standards recommended to ensure consistency with results anticipated from the introduction of new technologies.

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## MINISTRY OF TRANSPORTATION:

# Highway Maintenance Activities

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The Ministry of Transportation spends approximately \$300 million annually to ensure the preservation, useability and safety of the provincial highway system through preventive and winter highway maintenance activities.

We assessed whether:

- the Ministry's preventive maintenance efforts were adequate in meeting Ministry standards for preserving highways and bridges; and
  - maintenance resources, including equipment, staff and supplies, were being acquired and used in an economical and efficient manner.
- Current maintenance planning and the allocation of funds to the various districts is not driven by identified needs.
  - Measures to protect roads from water damage are not timely. For instance, ditches, which should generally be restored within 15 years, are currently being restored at 30 to 45 year intervals. Over time this level of preventive maintenance accelerates road deterioration and increases road rehabilitation costs.
  - Inspections of the 3,000 bridges in the highway system over the last three years revealed that over 1,300 of them had not received adequate routine preventive maintenance. Continued lack of bridge maintenance can accelerate deterioration and increase bridge rehabilitation costs.

Our audit was conducted at the Ministry's head office, three regional offices and five district offices. We obtained information from districts not visited by means of a questionnaire. We also interviewed officials from the Canadian Automobile Association and the Better Roads Coalition and communicated with the Ontario Trucking Association.

## CONCLUSIONS AND FINDINGS

### PREVENTIVE MAINTENANCE

The level of preventive maintenance currently performed by the Ministry to minimize and delay the deteriorating effects of water and salt on the province's highways and bridges is less than satisfactory.

### ACQUISITION AND UTILIZATION OF RESOURCES

The acquisition and use of maintenance resources is less than satisfactory.

- There was a high incidence of under-utilized equipment. Districts reported receiving new equipment without having requested or identified a need for it.
- Savings estimated at \$1 million could be realized annually by purchasing vehicles in bulk from manufacturers rather than from local dealers.
- The Ministry has been amalgamating staff to reduce costs and streamline patrol operations. Continuation of these amalgamations province-wide

has the potential for savings in the range of \$7 to \$9 million annually.

- Districts with a history of low average snowfall are conducive to a one-shift system for snow plough crews instead of a two- or three-shift patrol system. An additional \$3 million in salary costs can be saved annually by converting more patrols to a one-shift system.

3.18

## BACKGROUND

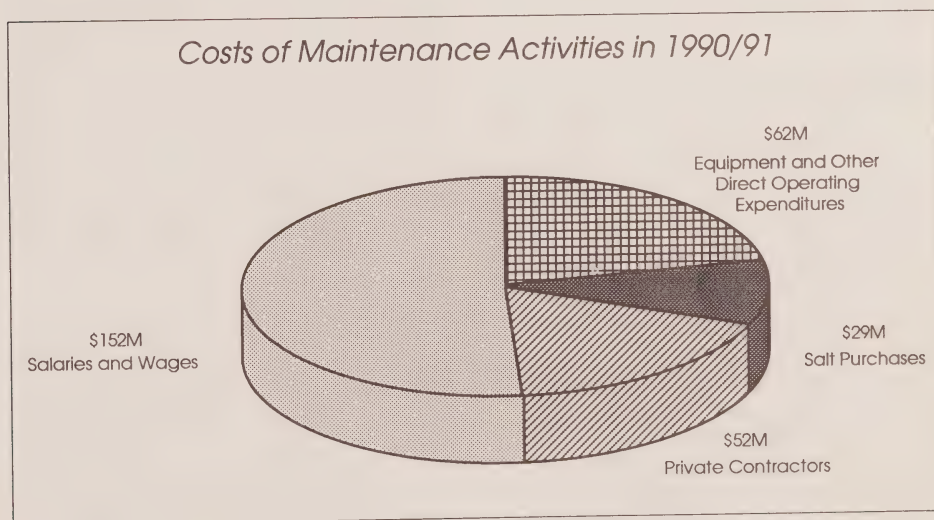
The replacement cost of Ontario's provincial highway system is estimated at around \$30 billion. This network, which comprises 22,000 kilometres of highway and approximately 3,000 bridges, is vital to the social and economic health of the province. Ontario highways carried 70 per cent of all goods moved through the province in the 1989/90 fiscal year.

The objective of the Ministry's maintenance program is to ensure that highways are

safe, dependable and well maintained in an environmentally responsible manner. The program has two major components—operations and general maintenance, and winter maintenance.

Operations and general maintenance activities include both minor surface repairs (for example, sealing cracks and patching potholes) and measures to prevent damage to roads and bridges from water and salt (for example, maintenance of drainage facilities around roads and periodic cleaning of bridges). Winter maintenance activities keep roads usable and safe during winter, and consist primarily of snow ploughing, salting and sanding.

These activities are delivered from five regional offices, 18 districts and 239 local patrol yards by approximately 3,700 Ministry staff and hundreds of private sector operators. The cost of these maintenance activities totalled almost \$300 million in fiscal 1990/91 broken down as follows:





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# COMMENTARY

## PREVENTIVE MAINTENANCE

### PLANNING

The Ministry maintains an up-to-date inventory of the physical conditions of all provincial highways and bridges. However this inventory does not serve as the basis for prioritizing and planning for preventive maintenance. Additionally, prioritized maintenance needs are not the determining factor in the Ministry's allocation of available maintenance funds to the regions and districts. Funding is based on past practices and takes into consideration the number of highway kilometres each district is responsible for.

We recommended that a detailed preventive maintenance schedule be developed on the basis of the physical condition of all provincial highways and bridges. The schedule should identify the nature of the work required, the frequency required for specific maintenance actions, and costs associated with these actions.

### PREVENTIVE MAINTENANCE ON ROADS

The Ministry recognizes the importance of good preventive maintenance as a tool to slow down deterioration and defer rehabilitation spending. A 1980 Ministry directive stated: "Preventive maintenance is expected to become a greater part of our overall road program."

In our 1985 audit of highway maintenance, we noted that this planned emphasis on preventive maintenance had not yet been undertaken. We noted that this planned initiative had still not been implemented as preventive maintenance spending on roads and bridges has dropped from \$33 million in 1985 to \$26 million in 1991.

Ministry engineers have identified the entry into and retention of water in the road base as a key factor in premature road deterioration. Good preventive maintenance of road surfaces, shoulders and drainage facilities is needed to prevent water damage. Such maintenance consists of crack filling, pothole patching, shoulder and ditch grading, and ensuring that ditches, culverts and catchbasins are kept free of dirt, debris and beaver dams so that water can flow freely away from road bases.

Ministry engineers cite good drainage as one of the most important features to ensure that pavement can withstand the effects of water, weather and traffic. Drainage systems have a high priority in road design and construction and in overall pavement management.

Our field visits to four districts, supplemented by questionnaires sent to the remaining 14 districts confirmed that Ministry standards for preventive maintenance were not being achieved. Over 80 per cent of the districts polled felt that current levels of preventive maintenance were inadequate for the long-term preservation of roads. Inadequate maintenance of drainage facilities was cited as the most common deficiency.

Two important facets of drainage maintenance are ditch grading and culvert cleaning. While Ministry standards call for these activities to be done periodically, the decision as to how often is left to the judgment of district maintenance staff.

Accordingly, we held discussions with several experienced engineering and maintenance staff in order to determine how often these activities should be performed in order to meet standards. The collective judgment of such staff was that ditching and culvert cleaning should generally be done every fifteen and five years, respectively.



Our review of recent ditching practices showed that ditching, which should be done every 15 years, is currently being done at 30 to 45 year intervals. Culvert cleaning practices were closer to meeting standards; we found that culverts were usually cleaned within eight years. In making this determination, we recognized that some ditches are maintenance free, and that ditching and culvert cleaning is occasionally performed as part of capital rehabilitation projects.

The cost of inadequate preventive maintenance can be high, as New York State's recent experience illustrates. In 1984 it launched a five-year, \$7.4 billion dollar rehabilitation program to repair its deteriorating highway system. Neglect of routine preventive maintenance was cited as the primary cause of this deterioration.

In Ontario, the Ministry has grouped roads into categories of *very good*, *good*, *poor* and *substandard* based on the pavement condition.

In 1979, over 60 per cent of the province's highways were rated *good/very good* whereas *poor/substandard* roads made up less than 40 per cent. In 1991, approximately 40 per cent of roads received ratings of *good/very good*.

This deterioration may be one reason why rehabilitation costs are starting to escalate. Spending levels in 1991 represented a 65 per cent increase over spending in 1987 and total rehabilitation spending over the last five years exceeded \$1 billion.

## PREVENTIVE MAINTENANCE ON BRIDGES

Ontario's \$2 billion bridge network is a vital part of its highway system, linking key sections of highway together over water, gullies and roadways. The 3,000 provincial bridges comprise less than 1 per cent of the system's size yet nearly 10 per cent of its value.

The Ministry and the transportation community have recognized that steel and concrete bridges are extremely vulnerable to the corrosive effects of road salt. In fact a recent Ministry study cited corrosion due to salt as the major cause of deterioration on Ontario bridges.

Our review of the adequacy of bridge maintenance included discussions with bridge engineers and field staff, analysis of spending patterns, and a computer-assisted review of approximately 3,000 detailed inspections. These inspections were performed by regional office bridge engineers outside of the maintenance function. Nearly 1,300 or approximately 45 per cent of the 3,000 bridges inspected showed signs that routine preventive maintenance was not being properly done.

Ministry bridge engineers have expressed concern about this lack of maintenance. They feel that standards are not being met and that neglect of bridge maintenance will accelerate the rate of bridge deterioration and contribute to escalating rehabilitation costs in the future. Preventive maintenance spending province-wide on bridges has dropped 60 per cent between 1987 and 1991.

Inadequate bridge maintenance can result in high rehabilitation costs. For instance, bridge rehabilitation spending between 1987 and 1991 was around \$230 million. Spending rose by more than 60 per cent between 1987 and 1991.

The Ministry should consider evaluating the overall financial impact of reduced bridge maintenance on capital rehabilitation, to ensure optimal maintenance strategies are pursued.

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# ACQUISITION AND UTILIZATION OF RESOURCES

## FLEET MANAGEMENT

The Ministry fleet, which has an estimated replacement value of \$230 million, includes over 625 passenger cars, over 2,400 trucks and approximately 12,300 assorted pieces of construction and maintenance equipment. On average, almost \$15 million is spent annually on acquiring new equipment.

Overall fleet management is the responsibility of the Equipment Engineering Office of the Transportation Operations Branch. Their responsibilities include developing policies for the acquisition, maintenance and replacement of Ministry vehicles. The primary function of the Ministry's 18 district garages is to maintain the Ministry equipment assigned to the district. For the year ended March 31, 1991, vehicle repair and maintenance costs amounted to almost \$26 million.

### Utilization of Equipment

New and replacement equipment required by the Ministry is based on input from district, regional and head office personnel. Factors considered in making these decisions include replacement criteria and utilization rates of existing equipment.

Under-utilized vehicles, as defined by the Ministry, are vehicles with usage is significantly below the Ministry average for that vehicle class. Our review of utilization rates for specific types of equipment in six districts revealed that there was a significant degree of under-utilized equipment. For instance, in the 1990/91 fiscal year, 19 per cent of cars, 36 per cent of express vans and 41 per cent of dump trucks were under-utilized. Our analysis also indicated that under-utilization of these types of vehicles

has been ongoing and was not isolated to a particular year.

### Equipment Rental

Approximately \$10 million is spent annually on the rental of non-winter maintenance equipment. Discussion with patrol and district staff indicated that most equipment is rented because no Ministry equipment is available or it is the wrong kind, or because renting is cheaper. These observations were corroborated by a 1990 Ministry activity review report on leased equipment.

We noted a need for improved monitoring and control over rentals at the district level. For instance, tendering is only required for rentals exceeding 14 days. In the patrols we visited, we found a number of cases where rentals exceeded 14 days without tendering. For example, a tractor was rented for 252 days and snowblowers were rented for the entire winter season.

One district initiated a directive which required all patrol supervisors to contact the district equipment supervisor before leasing equipment. This allowed the district supervisor to check other patrols to determine whether the requested equipment was available internally. This directive led to a dramatic decrease in the rentals for this district. Prior to issuance of the directive, 90 rentals were made. That number dropped to 37 in the year it took effect.

We encourage other districts to adopt this procedure. Sharing equipment between districts should also be actively pursued as a method of increasing utilization rates and decreasing the number of rentals. At present, very little sharing of equipment occurs between districts.

### Acquisition of Vehicles

Acquisition costs for new vehicles have averaged \$15 million annually over the

past five years. In addition to purchasing vehicles for its own fleet, the Ministry of Transportation is responsible for the purchase of all Government of Ontario vehicles.

Since 1978, the Ministry has acquired its vehicles through local dealers. This necessitates sending out approximately 1,000 tenders annually. It has not been Ministry practice to allow manufacturers to bid on vehicle requirements.

Bulk purchasing from a manufacturer would save the Ministry money and reduce bureaucracy and administrative errors when equipment is purchased. We were informed by a manufacturer that it could offer a substantial discount over the price offered by dealers.

We also noted that prices paid to different dealers for similar equipment varied significantly. For instance, the price differentiation between two dealers for the same type of vehicle was \$6,000 or about 25 per cent of the list price. In another situation the difference was \$7,000. In reviewing 1990/91 fiscal year acquisitions, we found these variations amounted to over \$600,000.

We estimate that, based on the manufacturer's estimated discount, savings of \$1 million annually could be realized by purchasing in bulk from manufacturers rather than dealers. Most other provincial governments and large fleet operators acquire directly from manufacturers. The Ministry has recognized the benefits of bulk purchasing from manufacturers and is in the process of changing its current practice.

## STAFFING

### Patrol Yard Amalgamations

Most maintenance activities are delivered by patrol yards dispersed across the province. A patrol yard is typically staffed by a minimum of five workers who are responsible for performing the necessary winter

and general maintenance on all roads, roadsides and bridges for about 100 km of highway.

When we last audited highway maintenance in 1985, there were 259 patrol yards. At that time we felt that certain of these patrol yards could be amalgamated without a deterioration in service levels and that this would result in savings to the Ministry. By 1992 the number of patrol yards had been reduced to 239 through such amalgamations.

We again reviewed this area to see whether there was any apparent overstaffing at the patrol yard level which could be remedied through further patrol yard amalgamations.

We noted that recent patrol amalgamation studies undertaken by the Southwest Region and Kingston District concluded that both the Region and District were overstaffed relative to the number of staff needed to carry out the required maintenance work. Kingston District plans to reduce the number of patrols from 21 to 9 while the Southwest Region plans to reduce the number of patrols from 55 to 42. Both initiatives are expected to produce annual savings of over \$3.2 million.

Applying the criteria from these studies to the province as a whole indicates potential savings in the range of \$7 to \$9 million annually.

### One-Shift Schedules

Scheduling staff for shifts is the responsibility of the regions and districts. During the winter season almost all 18 districts have two-shift schedules for snow plough crews. During their shifts, plough crews wait at the patrol yard for the possibility of snow. Employees are paid regardless of whether they are called out to plough.

We noted, however, that 14 of the 239 patrols are currently on a one-shift system with the shift time overlapping peak traffic



periods. These patrols are located in warmer districts such as Toronto, Burlington and Port Hope. While reaction time to a snowfall may be slower using a one-shift system, the use of private contractors, or employees who could be called in on an "as needed" basis can prove more economical.

We analyzed the warmer districts to determine if there was further potential for one-shift patrols. The districts most conducive to a one-shift system are those with the least likelihood of constant, heavy snowfall which decreases their chances of being caught understaffed.

While the average annual snowfall in Ontario is 200 cm, our analysis over three years of average snowfall for six warmer weather districts revealed that their average was 104 cm, with one district as low as 65 cm. While we acknowledge there are other variables besides snow that may effect the practicality of a one-shift system, we estimate that the Ministry can save \$3 million in salary costs by selectively converting some of these districts and patrols to a one-shift system.

Similar US jurisdictions (New York State and Minnesota) have been under a one-shift system for years.

## ANALYSIS OF PRIVATIZED OPERATIONS

The Ministry makes extensive use of the private sector to deliver its services. In the 1990/91 fiscal year approximately \$52 million was spent on privatized work of which winter snow removal, sanding and salting operations accounted for a significant portion.

A 1974 Ministry directive outlined the criteria which should be considered in transferring services to the private sector. One key factor in privatization should be the realization of a reduction in the Ministry's operating expenditures.

Our review of privatized operations revealed that even though the districts surveyed indicated cost savings were a major benefit of privatization, no formal cost/benefit analyses were performed verifying that cost savings resulted from privatizing activities.

Districts and regions should be required to analyze more formally the effects of privatization so that improved decisions can be made on whether to transfer activities or services to the private sector.



## RESPONSE

The Deputy Minister of Transportation responded to our report on September 15:

*Fiscal realities, together with the aging highway system, challenge the Ministry's ability to meet maintenance needs, especially routine activities.*

*Most current maintenance expenditures, such as zone painting, patching potholes, grading shoulders, replacing signs and guide rail repairs, are in support of safety-related objectives. Maintenance activities like ditch and culvert clean outs, and washing structures, are preventive maintenance activities in support of preserving the roadway as a capital asset.*

*In 1989, the Ministry established a special Preservation Management Capital Fund that was intended to restore certain elements of the roadway to acceptable standards. Approximately \$19.1 million was spent in 1991/92 on crack sealing, selective paving, gravel shoulder restoration, surface treatment, etc. type activities. In addition, the base capital program included substantial expendi-*



tures on structural steel coating and major bridge repairs—activities that were historically funded from the Highway Maintenance Operations budget prior to April, 1989.

## **PREVENTIVE MAINTENANCE**

### **PLANNING**

A detailed assessment has recently been completed of future annual maintenance needs for each district, and this data will be used as one of the major inputs in equitably allocating available operating funds in fiscal year 1993/94. It should be noted that the historical annual maintenance budget falls well short of the annual maintenance needs. It is proposed to update the needs inventory on a two- to three-year cycle.

### **PREVENTIVE MAINTENANCE ON ROADS**

While it is generally acknowledged that timely maintenance of drainage facilities helps to preserve the capital asset, a higher priority must be given to safety related activities such as zone striping, traffic signal repairs, etc. In the future, the use of more capital funds for drainage improvements will be pursued.

The pavement rating conditions of highways reflect the level of capital investment in their rehabilitation, more so than does routine maintenance. It is acknowledged that over the past 10 to 15 years the percentage of highways in the good to very good category has declined; this is in part due to the natural aging of the highway infrastructure built in the 1950s and 1960s.

During the same period, it should be noted that the number of substandard pavement sections has remained relatively stable, indicating that the right priorities are being addressed with available capital funds.

Current program initiatives include the fast tracking of relatively long (25 to 35 km) paving projects to reduce the number of poor and substandard sections of highway.

### **PREVENTIVE MAINTENANCE ON BRIDGES**

The allocation of operating funds to routine preventive maintenance of bridges has declined as noted because of the higher priority allocated to safety related maintenance operations. The long-term effects of these decisions are difficult to measure or predict because of the long average life (50 years) of most structures. As major growth in the Ontario system occurred in the 1950s and 1960s, a large number of the bridges are increasingly in need of rehabilitation.

This has resulted in significant increases in capital expenditures on bridge rehabilitation over the past five years. Between 1987 and 1991, annual capital investments in structure rehabilitation have increased from \$27 million to \$45 million and over the next three years will continue between \$45 million and \$50 million per year. It should also be noted that during the same period the percentage of defective bridges on the King's Highway System declined from 27.7 per cent to 24.7 per cent.

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## ACQUISITION AND UTILIZATION OF RESOURCES

### FLEET MANAGEMENT

#### Utilization of Equipment

*Revised administrative procedures have been put in place which require each District Equipment Supervisor to identify and justify the need for any new/replacement equipment before tenders are prepared.*

*The lower than average utilization of certain classes of equipment results, in part, from the ongoing downsizing of operations carried out by Ministry staff. Each year the equipment complement of each district is reviewed with Regional/Head Office staff to determine replacement needs that reflect current and future business requirements. The system will be upgraded to provide for improved control and monitoring of vehicle utility.*

#### Acquisition of Vehicles

*Management Board has recently approved a policy change that would permit the Ministry to purchase vehicles directly from manufacturers rather than through local dealers, resulting in an estimated annual savings of \$0.5 to \$1.0 million.*

### STAFFING

#### Patrol Yard Amalgamations

*In 1966/67 the Ministry operated 363 patrols province-wide. By 1991, this number had been reduced to 239 with a corresponding reduction in both classified and unclassified staff and equipment. The opportunity to gain the benefits identified in the studies carried out in Eastern and Southwestern Regions will be explored in the remaining Regions.*

#### One-Shift Schedules

*A number of districts are revising their winter maintenance coverage to a one-shift system on lower volume roads. This places more reliance on call-back of off-duty staff. Consequently, potential savings will be offset by increased overtime payments to Ministry patrol staff.*

### ANALYSIS OF PRIVATIZED OPERATORS

*It is agreed that appropriate cost/benefit analysis of selected privatized operations such as garage repairs, winter ploughing, sanding and salting contracts, be carried out to ensure that the government is receiving good value for services, compared with the costs of performing these activities with ministry staff. These studies will be scheduled for completion in the 1993/94 fiscal year.*

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## CHAPTER FOUR:

# Public Accounts of the Province

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## 4

### PREPARATION OF THE PUBLIC ACCOUNTS

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Treasurer as required by the *Ministry of Treasury and Economics Act*. The three volumes of the *Public Accounts* are delivered to the Lieutenant-Governor in Council for presentation to the Assembly not later than the tenth day of the first session held in the following calendar year.

Volume 1 of the *Public Accounts* contains the financial statements of the Province and other statements and schedules. The Provincial Auditor audits and expresses an opinion on the financial statements, and scrutinizes the other information in Volume 1.

Volume 2 includes reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

- in which the Province has an investment;
- which have borrowed from the Province; or
- which have borrowed from others with a guarantee by the Province.

Volume 2 also contains the audited financial statements of certain significant operational agencies funded in whole or in part by revenues generated by their operations.

Volume 3 details each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments, under two main categories: Voted Appropriations and Statutory Appropriations. The Provincial Auditor scrutinizes the information in Volume 3 and includes any relevant comments in this Chapter.

### FINANCIAL STATEMENTS OF THE PROVINCE

The audited financial statements and accompanying notes contained in Volume 1 of the *Public Accounts* summarize the financial activities of the Province for the fiscal year. They also report on the significant aspects of the Province's financial position at the close of the fiscal year.

The Summary of Significant Accounting Policies is described in Note 1 to the financial statements, and appears on page 1-8 of Volume 1 of the 1991/92 *Public Accounts*. The Summary provides the reader with a clear understanding of the principles and methods used to present the financial information in the statements.

The Province's financial statements are prepared using the concept of a Consolidated Revenue Fund, and are designed to provide an accounting of the financial resources appropriated by the Legislature. Accordingly, the financial transactions of Government

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ministries are set out as Consolidated Revenue Fund cash inflows and outflows. In the case of cash outflows, this basis is modified to allow an additional 30 days to pay for obligations incurred during the fiscal year just ended. Cash inflows, however, are closed at March 31. Under the Consolidated Revenue Fund concept, the activities of Crown corporations, boards and commissions are reported only to the extent to which their operations have been financed from, or have contributed to, the Consolidated Revenue Fund.

## AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Under the provisions of the *Audit Act*, the Provincial Auditor is required to examine the accounts and records of the Province, and to report annually to the Legislative Assembly on the Province's financial statements. The report is to state whether, in the opinion of the Provincial Auditor, the statements present fairly the financial position, results of operations and changes in the Province's financial position, and are in accordance with the stated accounting policies, consistently applied. Where there are qualifications of the audit opinion, the reservations are to be explained in the report.

In his capacity to act in the place of the Provincial Auditor, the Assistant Provincial Auditor has expressed an opinion without reservation on the Province's financial statements. The report is presented on page 1-13 of Volume 1 of the 1991/92 *Public Accounts*.

## ONTARIO'S DEFICIT

In our last three Annual Reports, we provided an update on various factors associated with government deficits in general, and made specific comments related to Ontario's deficit.

A government's deficit represents its excess of expenditure over revenue in any given year. A government's accumulated deficit equals the total of annual deficits, less any annual surpluses.

### 1992 DEFICIT

Ontario's 1991 Budget, tabled on April 29, 1991, forecast a deficit of \$9.7 billion for the year ended March 31, 1992. The actual deficit was \$10.9 billion, or \$1.2 billion greater than the forecast.

The largest factor contributing to this \$1.2 billion shortfall was the larger than anticipated effect of the continuing recession. As a result, personal income tax revenue was approximately \$2.2 billion less than expected, and retail sales taxes were short by about \$.5 billion. Even after considering the effect of an \$810 million increase in revenue from the federal government under Established Programs Financing, the net effect of these two taxation revenue shortfalls was \$1.9 billion.

Recognizing these revenue shortfalls, as well as greatly increased social assistance payments, the Government instituted a series of expenditure reduction measures during the year. These measures, when combined with other decreases in expenditure, more than offset social assistance and other expenditure increases, with the result that total expenditures for the year ended March 31, 1992 were \$600 million less than the forecast.



Pages 59 to 65 of the 1992 Budget, tabled in the Legislature on April 30, 1992 provide a full description of all variances from budget to actual for the year ended March 31, 1992.

## FINANCIAL IMPLICATIONS OF DEBT

When Government expenditures continue to exceed revenue, cash balances are drawn down and borrowing is required. All such borrowing constitutes a government's debt.

The following table summarizes recent Ontario experience.

	1991/92	1990/91
	(\$billions)	
Deficit	10.9	3.0
Accumulated Deficit	49.3	38.4
Debt for Provincial Purposes	53.1	42.3

In our last three Annual Reports, we have referred to the effects of growing deficits and debt, and the need for governments to carefully monitor and control such situations.

One section of the publication *Ontario Fiscal Outlook*, released by the Treasurer in January 1992, was devoted to a discussion of the implications of a higher debt load, assuming current spending and revenue trends were to continue unchanged. The following were presented as some of the problems presented by a larger debt load:

- Interest on public debt will rise as a share of revenues, thus reducing the flexibility to address social needs or to deal with economic issues such as the recession;
- Ontario must compete in the public financial markets with other provinces and countries that are also facing financial pressures. The resulting increased level of competition for available funds causes the cost of borrowing to go up; and
- The cost of borrowing may also increase if the Province's credit rating goes down. Many large lenders, such as pension funds and life insurance companies, restrict a large part of their lending to the highest credit ratings. Factors affecting the stability of Ontario's credit rating include the state of the economy, debt in relation to growth in the economy as measured by the gross domestic product, public debt interest relative to revenue, and responsible fiscal management.

On the plus side, the publication notes that, in comparison to the size of the economy, Ontario's debt is lower than that of most other provinces and the federal government. Additionally, Ontario's credit rating (double A) remains high, comparing well with those of other provinces and most US states.

## ADVANCE PAYMENT OF EXPENDITURE - ITS EFFECT ON THE DEFICIT

In each of our last three Annual Reports, we have commented on the practice of paying expenditures in advance and on the resulting effect on the provincial deficit. The practice continued this year, although its magnitude was not as significant as in the past.

Unfunded liability payments to the Ontario Teachers' Pension Fund (\$52 million), that were scheduled to be paid in the 1992/93 fiscal year, were preflowed and charged to

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expenditure in the 1991/92 fiscal year. The reported deficit for the year ended March 31, 1992 was thereby increased by this amount.

As stated in previous reports, the practice of preflowing expenditures can and has been viewed as an attempt to “manage” the deficit, thus raising doubts concerning the integrity of the accounting process. We again recommend that the Government treat preflows as advances to be reported as financial assets at the fiscal year end. These assets could then be appropriately converted to and reported as expenditure in the succeeding year.

## **THE CONSOLIDATED REVENUE FUND - AUTHORIZED AND ACTUAL PAYMENTS**

### **AUTHORIZED PAYMENTS**

All public monies received and expenditures made are channelled through a single fund, the Consolidated Revenue Fund. Expenditures from the Fund are of two major types: those pursuant to Estimates including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Payments from a particular Voted Appropriation may be increased by Treasury Board Orders, provided the payments are offset by limiting the expenditures to be made under any other Voted Appropriation. Another type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of these four expenditure approval mechanisms is more fully explained as follows.

#### **Voted Appropriations**

Prior to the passage of the *Supply Act*, the Legislature authorizes payments out of the Consolidated Revenue Fund by means of motions of interim supply. For the 1991/92 fiscal year, the time periods covered by the motions of interim supply, and the dates the motions were agreed to by the Legislature, were as follows:

- April 1, 1991 to April 30, 1991 - passed December 20, 1990
- May 1, 1991 to July 31, 1991 - passed April 24, 1991
- August 1, 1991 to October 31, 1991 - passed June 27, 1991
- November 1, 1991 to December 31, 1991 - passed October 30, 1991

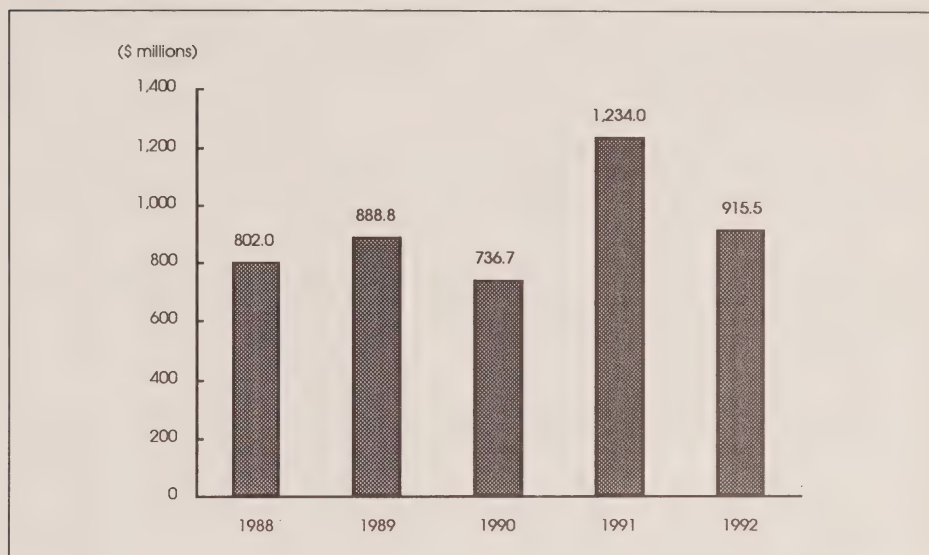
When the Legislature approves the *Supply Act*, the annual estimated expenditures (Estimates and Supplementary Estimates) are formalized as Voted Appropriations. The *Supply Act*, 1991, pertaining to the fiscal year ended March 31, 1992, received Royal Assent on December 19, 1991.

#### **Treasury Board Orders**

Section 8 of the *Treasury Board Act* allows the Board to make an order authorizing payments to supplement the amount of any appropriation which is insufficient to carry out the purpose for which the appropriation was made. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

Section 5 of the *Management Board of Cabinet Act* contained a provision similar to section 8 above but was repealed effective June 27, 1991 when the *Treasury Board Act* came into force.

The following chart is a summary of the Board Orders issued for the past five years:



Board Orders for the 1991/92 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized \$
July 1991 to February 1992	30	249,697,300
March 1992	25	389,483,300
April 1992	<u>19</u>	<u>276,269,534</u>
	<u>74</u>	<u>915,450,134</u>

In accordance with a Standing Order of the Legislative Assembly, the preceding Board Orders have been printed in *The Ontario Gazette*, together with explanatory information.

### Special Warrants

As previously indicated, motions of interim supply adopted by the Legislature are the usual means of authorizing payments from the Consolidated Revenue Fund prior to the passage of the *Supply Act*. However, when the Legislature is not in session, section 7 of the *Treasury Board Act* provides for the issue of a Special Warrant authorizing the expenditure of money for which there is no appropriation by the Legislature, and the amount is to be

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paid from the Consolidated Revenue Fund as specified in the Special Warrant. Special Warrants are authorized by orders in council approved by the Lieutenant-Governor on the recommendation of the Government.

Section 4 of the *Management Board of Cabinet Act* contained a provision similar to section 7 above but was repealed effective June 27, 1991 when the *Treasury Board Act* came into force.

No Special Warrants were issued during the 1991/92 fiscal year.

### Statutory Appropriations

Payments out of the Consolidated Revenue Fund relating to Statutory Appropriations represent those where the specific authority to spend is expressly contained in a statute of the Legislature. No further specific approval is required, as the spending authority continues indefinitely until the statute is amended or repealed.

For the information of the Legislature, the Government notes in the annual Estimates the amount expected to be spent in accordance with the authority given in the various statutes. However, if spending on Statutory Appropriations exceeds the expected amount, no Treasury Board Order is required.

## COMPARISON OF AUTHORIZED AND ACTUAL EXPENDITURES

The comparison for the fiscal year ended March 31, 1992 is as follows:

	Authorized (\$ millions)	Actual (\$ millions)
Voted Appropriations		
Estimates	47,555	45,854
Treasury Board Orders	<u>915</u>	<u>764</u>
	48,470	46,618
Statutory Appropriations*	<u>5,253</u>	<u>5,886</u>
	53,723	52,504

\* Authorized represents expected expenditure per the Estimates less estimated interest income of \$460 million in the Budget; Actual represents total expenditure net of \$597 million interest income.

A detailed listing of Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit 6 of this Report.

## WRITE-OFF OF UNCOLLECTABLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant-Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the *Public Accounts*.



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## 1991/92 WRITE-OFFS

A total of \$78.3 million was written off in the 1991/92 fiscal year (1990/91 \$65.5 million), as indicated on page 3-17 of Volume 1 of the *Public Accounts*. The major portion of these write-offs related to the following:

- \$27.5 million for unpaid taxes relating to the *Retail Sales Tax Act* and the *Corporations Tax Act*;
- \$16.9 million pertaining to uncollectable loans made under the *Development Corporations Act* and by the former Board of Industrial Leadership and Development (BILD);
- \$7.4 million in uncollectable fines, costs and fees owed to Provincial Courts;
- \$5.6 million with respect to overpayments under the *Family Benefits Act*;
- \$5.1 million related to the Ontario Farm Adjustment Assistance Program whereby the balances of guarantees were paid to banks after applying any proceeds of liquidation of farmers' assets;
- \$4.7 million in uncollectable claims and judgements pertaining to the Motor Vehicle Accident Claims Fund; and
- \$3.1 million for uncollectable loans to students under various student support programs.

## TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of monies from one item of the estimates of the Office of the Assembly to another item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the *Annual Report*.

In respect of the 1991/92 expenditure estimates, no transfers were made within Vote 201 of the Office of the Assembly.



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## CHAPTER FIVE:

# Office of the Provincial Auditor

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## INDEPENDENCE OF THE PROVINCIAL AUDITOR

The independence of the Provincial Auditor has been ensured by the provisions of a separate legislative act, the *Audit Act*. The Provincial Auditor is appointed an officer of the Legislative Assembly by the Lieutenant-Governor in Council on the address of the Assembly after consultation with the Chairman of the Standing Committee on Public Accounts. Thus, the Provincial Auditor is accountable to the public through their elected representatives.

Additionally, the Provincial Auditor and the Office of the Provincial Auditor are independent of the Government and its administration. Neither the Provincial Auditor, nor the employees of the Office of the Provincial Auditor, are employees of the Government.

For Office expenditures and staffing the Provincial Auditor is accountable to the Board of Internal Economy, an all-party legislative committee independent of the Government's administrative process. As required by the *Audit Act* the Office's expenditures have been audited by a firm of chartered accountants appointed by the Board. The audited statement of expenditure for the 1991/92 fiscal year has been submitted to the Board and tabled in the Assembly.

## OFFICE GOALS

The primary goal of the Provincial Auditor is:

- to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor's secondary goal is as follows:

- to assist Deputy Ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries'/agencies' stewardship of public funds.

The Provincial Auditor seeks to achieve these goals by conducting value for money, attest and compliance audits; by presenting individual audit reports to the respective Deputy Ministers/agency heads; and by presenting an Annual Report to the Legislature.

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## AUDIT RESPONSIBILITIES

### PRIMARY RESPONSIBILITY

The primary responsibility of the Provincial Auditor is to audit the administration of Government programs and activities, as carried out by ministries and agencies of the Crown under Government policies.

Audit responsibilities, however, do not extend to Government policy matters. The Office audits neither Government policies nor information contained in Cabinet documents used in policy deliberations or decisions. The Government is held accountable for policy matters by the Legislature, which continually monitors and challenges Government policies and programs through questions in the House and reviews of legislation and expenditure estimates.

#### Ministries

The Provincial Auditor, per Section 9(1) of the *Audit Act*, is required to audit Government ministries. While value for money audits are the primary focus, the Office also carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the Province's financial statements. Exhibit 2 lists the ministry audits covered by this Report.

#### Agencies of the Crown and Crown Controlled Corporations

The Provincial Auditor, per section 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit 3, part (i), lists the agencies audited for the 1991/92 fiscal year. Public accounting firms are currently contracted by our Office to audit the financial statements of several of these agencies on our behalf.

Exhibit 3, part (ii), and Exhibit 4 list the agencies of the Crown and Crown controlled corporations audited by public accounting firms for the 1991/92 fiscal year. Section 9(2) of the *Audit Act* requires public accounting firms who are appointed auditors of agencies of the Crown to audit under the direction of, and report to, the Provincial Auditor. Under section 9(3) of the Act, public accounting firms auditing Crown controlled corporations must deliver to the Provincial Auditor a copy of their completed audited financial statements, together with a copy of their findings and recommendations to management (management letter).

### ADDITIONAL AUDIT RESPONSIBILITIES

Under section 16 of the *Audit Act*, the Provincial Auditor may be directed by the Standing Committee on Public Accounts to examine any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister. However, these special assignments are not to take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

The Special Assignments section of this chapter indicates the status of recent assignments requested under these sections.

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# AUDIT ACTIVITIES

## TYPES OF AUDITS

Value for money, compliance and attest audits are the three main types of audits carried out by the Office. All such audits are performed in accordance with generally accepted auditing standards. In addition, inspection audits of selected transfer payment recipients are conducted under Section 13 of the *Audit Act*. A brief description of each of these categories follows.

### Value for Money

Section 12 of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard to economy or efficiency, or where appropriate procedures were not taken to measure the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities. The Office does not have a mandate under the *Audit Act* to conduct value for money audits of transfer payment recipients, but may assess the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well managed.

It is not part of the Office's mandate to evaluate the effectiveness of programs or develop standards to measure efficiency of program delivery, as these functions are the responsibility of the ministry/agency management. The Office is only responsible for assessing the extent to which these functions have been carried out by management.

### Compliance

Compliance audits are carried out in ministries and Crown agencies in order to assess whether transactions and other aspects of operations are in compliance with legislative and administrative requirements. The Office generally conducts such audit work in conjunction with our value for money and attest auditing.

### Attest

Attest (financial) audits are designed to attest to (express a professional opinion on) a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with the entity's stated accounting policies. The Office conducts attest audits on the financial statements of the Province and various Crown agencies on an annual basis.

### Inspection Audits of Transfer Payment Recipients

Transfer payments, comprising over 70 per cent of Government expenditures, are transfers of money from the Province to an individual, an organization or another government.



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Inspection audits are defined as examinations of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not value for money oriented.

The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit. In keeping with the trend towards greater Government accountability, the Office in recent years has expanded inspection audit activity specifically to include the major recipients of transfer payments. The Office has undertaken special reviews of community colleges, universities, hospitals and school boards.

## **SCHEDULING OF AUDIT ACTIVITIES**

### **Ministry Audits**

All major ministry programs (annual expenditures exceeding \$50 million) are considered for audit over a five-year period. The cyclical audits are primarily value for money oriented and report specifically on the administration of programs and activities by management. Ministry expenditure systems that are processed centrally are similarly considered for audit on a cross-ministry basis every five years. Additionally, smaller programs and activities, particularly information systems, may also be audited.

The frequency of the cyclical audits depends on such factors as total ministry expenditures, impact of a program on the public, diversity and complexity of operations, results of previous cyclical audits, and audit activity by the internal audit branch within the relevant ministry. As well, the Office may undertake special assignments at ministries and their agencies as requested by the Legislature, the Standing Committee on Public Accounts or a minister. The Office may also carry out internally generated special assignments.

### **Agency Audits**

Agencies of the Crown are audited annually as required by legislation. While value for money observations may arise during these audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

### **Internal Audits**

The amount of work done by ministry and agency internal auditors and the breadth of its scope can have a major impact on the timing, frequency and extent of our audit activity. By having access to internal audit work plans, working papers and reports, the Office is able to avoid duplication of effort by relying, to the extent possible, on internal audit activities.

## **REPORTING ACTIVITIES**

### **MINISTRY AND AGENCY AUDITS**

The Office prepares a draft report as each audit is completed. The draft is discussed with senior ministry/agency officials and revised, if necessary, to reflect the results of the discussion. We issue a final report to the Minister and Deputy Minister or, for agencies, to the Board of Directors and the Minister of the associated ministry. Also, we send a copy of all final reports to the Secretary, Management Board of Cabinet.

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Neither individual ministry or agency reports, nor reports on special assignments for a Minister, are submitted to the Legislative Assembly or to the Standing Committee on Public Accounts. A similar situation exists for reports submitted by the external auditors of agencies or Crown controlled corporations to management.

Exhibits 2 and 3 provide a listing of the ministry and agency audits conducted since our last Report.

## **SPECIAL ASSIGNMENTS**

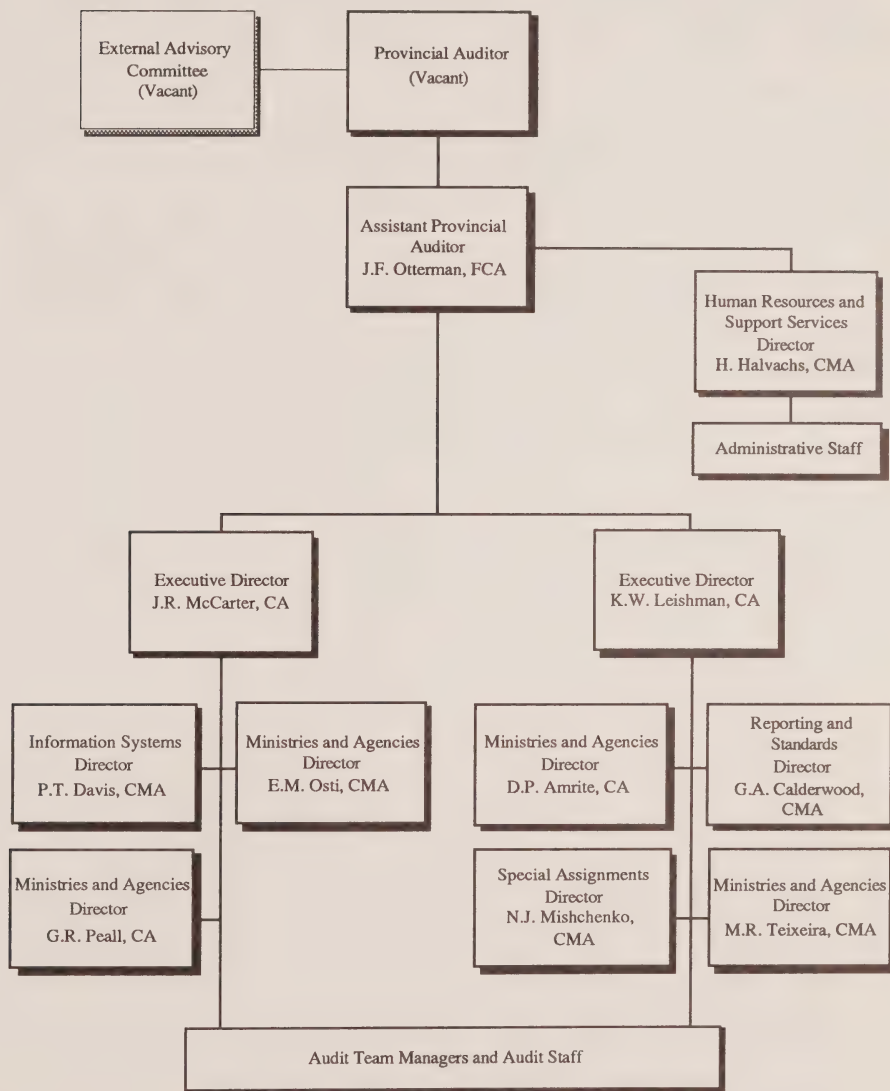
Under Sections 16 and 17 of the *Audit Act*, the Office has additional reporting responsibilities relating to special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a Minister of the Crown. At the conclusion of such work the Provincial Auditor reports to the initiator of the assignment. Reports on special assignments for the Legislative Assembly, or the Standing Committee on Public Accounts, become public documents when they are tabled. Disclosure of reports on special assignments for a Minister has been described in the immediately preceding section on ministry and agency audits.

During the period of audit activity (September 1991 to August 1992) covered by this Report, the Office was involved with five special assignments:

- The Standing Committee on Public Accounts requested the Provincial Auditor to conduct an audit of the expenditures of Deputy Ministers and report on the guidelines that Deputy Ministers are required to follow with respect to the use of these expenditures. The audit would also show the actual amount that each Deputy Minister was granted for the purpose of expenses and would include any suggestions the Provincial Auditor might have which might be implemented to improve the accountability of the use of these expenditures. We reported to the Committee in November 1991.
- As The Ontario Educational Communications Authority (TVOntario) had been the subject of much adverse commentary and allegation concerning senior management and the administration of the Authority's resources, the Secretary of Cabinet requested our Office to investigate the many issues relating to fiscal responsibility and any other matters the Office considered relevant. This request was confirmed in discussion with the Minister of Culture and Communications. We reported to the Secretary in September 1991.
- The Standing Committee on Public Accounts requested the Provincial Auditor to perform a follow-up audit, with full access to all the financial and related records, of The Toronto General Division of The Toronto Hospital. The audit was to address computer and construction/renovation expenditures and other concerns. We expect to report to the Committee in October 1992.
- Additionally, the Committee requested the Provincial Auditor to undertake an audit of the Office of the Registrar General. The processing of requests from the public and Office staffing were to be audited. We expect to report to the Committee in the latter part of the year.
- The Committee also requested the Office to conduct a value for money audit of the Office of the Ombudsman within the 1992/93 fiscal year.

## OFFICE ORGANIZATION AND PERSONNEL

An overview of the Office's organization as at August 31, 1992 is as follows. This organization has remained essentially unchanged during the year.



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## **Ministries and Agencies Audit Branches**

These four branches audit ministries on a cyclical basis and agencies of the Crown annually.

### **Reporting and Standards Branch**

The responsibilities of this branch include the audit of the Province's financial statements, the preparation of the Annual Report, and the development and maintenance of auditing policies and standards.

### **Information Systems Branch**

This branch's main responsibilities involve the auditing of information systems and the provision of technical support and training to other branches.

### **Special Assignments Branch**

This branch's main responsibilities are Office-initiated audits and reviews of Government-wide issues and systems, and special assignments requested by the Standing Committee on Public Accounts and by Ministers.

### **Human Resources and Support Services**

This branch provides human resources, budgeting, financial, accounting, administrative and accommodation services in support of audit operations.



## OFFICE EXPENDITURE

The following is the 1992 audited Statement of Expenditure for the Office.

**Office of the Provincial Auditor  
Statement of Expenditure  
year ended March 31, 1992**

	1992		1991	
	Actual \$	Estimates \$	Actual \$	Estimates \$
Salaries and wages	5,193,635	5,403,600	4,708,966	5,167,000
Employee benefits	998,038	849,200	963,510	667,000
Transportation and communication	195,528	226,100	255,910	277,000
Services	1,392,156	1,392,400	1,143,349	1,360,500
Supplies and equipment	64,327	104,500	356,644	134,500
Transfer payment - Canadian Comprehensive Auditing Foundation	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
	7,893,684	8,025,800	7,478,379	7,656,000
The Audit Act	<u>115,936</u>	<u>123,000</u>	<u>122,095</u>	<u>123,000</u>
	8,009,620	8,148,800	7,600,474	7,779,000

**Notes:**

1. *Accounting Policy*

The statement of expenditure has been prepared using the cash basis of accounting followed by the Province of Ontario with respect to the Public Accounts. The cash basis of accounting is modified to allow for an additional 30 days to pay for debts incurred during the fiscal year just ended.

2. *Estimates*

The estimates shown above are those voted and approved, including supplementary estimates where applicable.

### Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY  
THE PROVINCE OF ONTARIO

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1992. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

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In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1992 in accordance with the accounting policy referred to in note 1 to the statement.

Toronto, Ontario  
July 15, 1992

ALLEN & MILES  
CHARTERED ACCOUNTANTS

## **CANADIAN CONFERENCE OF LEGISLATIVE AUDITORS**

The twentieth annual meeting of the Canadian Conference of Legislative Auditors was held in Fredericton from July 5 to 7, 1992. This gathering, bringing together legislative auditors from Canada and the provinces, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

This year's conference, attended by the Assistant Provincial Auditor, covered such topics as:

- government management matters;
- challenges in information technology;
- balancing control and employee empowerment; and
- update and discussion of Public Sector Accounting and Auditing Committee activities.

The twenty-first Canadian Conference of Legislative Auditors will be held in Toronto in 1993 with the Provincial Auditor acting as host and conference chair.

## **ACKNOWLEDGEMENTS**

### **STAFF**

In closing this chapter, I would like to recognize the dedicated efforts and support of our audit and administrative staff. They have carried out their responsibilities in a professional and competent manner with service to the Legislature and a desire for improving public administration at the forefront. Their contribution is especially noteworthy considering the wide-ranging scope of the audit tasks performed. I would also like to acknowledge the expressions of appreciation received from our auditees regarding the performance of our staff and the benefits derived from their audit work.

The following staff contributed to the accomplishment of our responsibilities during the audit year ending August 31, 1992:

Walter Allan	Dennis Endrizzi	Jeff Loncke	Diane Rochette
Cindy Allen	Linda Everingham	David Luk	Fraser Rogers
Paul Amodeo	Patti Everingham	Sandra Lutz	Amit Roy
Dinkar Amrite	Gerard Fitzmaurice	Rick MacNeill	Jane Schope
Bob Anger	Laura Floyd	Rosemarie Malott	John Sciarra
Alan Athaide	Arun Garg	Terry Marescaux	Lee-Ann Selluski
Cynthia Ayson	Corrine Gregor	Heather Margerison	Kathryn Shantora
Enzo Baldan	Mariana Grivicic	Susan Maskens	Thomson Shiu
Jennle Bangay	Hildegard Halvachs	Steve Mazza	Kim Simpson
David Bell	Iman Hamed	Vince Mazzone	Catherine Steele
Walter Bordne	Benji Han	Jim McArthur	Glenn Stencell
Paula Butler	Mark Hancock	Jim McCarter	Malcolm Stokes
Gord Calderwood	Naomi Herberg	John McDowell	Joanne Taibi
Fabiene Cazes	Jacqueline Ho	Nick Mishchenko	Jessica Taylor
Danny Chang	Kenn Hyslop	Bill Murphy	Mike Teixeira
Andrew Cheung	Glenn Inouye	Brian Nancekivell	Tony Tersigni
Rudolph Chiu	Ralph Iorio	Diane Newby	Sharon Tippet
Peter Chong	Terry Jeffs	Alan Orr	Ann Tortolano
Sally Clarke	Darren Jones	Ezio Osti	Peter Tsui
Dayna Crossley	Dean Jones	Gary Peall	Christopher Verney
Patrick Cupido	John Landerkin	Bill Pelow	Brian Wanchuk
Andrew Dagsy	Syd Latchana	Donald Pettipas	Susan Webb
Peter Davis	Christine Leach	Nadine Pietrobon	Janet Wilson
Howard Davy	David Lee	Michael Radford	Larry Yarmolinsky
Elizabeth Derco	Ken Leishman	Gwen Radstake	Denise Young
Vito Di Taranto	Margaret Lem	Margaret Reid	Haseena Yussuff
Wayne Doiron	Stephen Leonard	Nancy Rhéaume	

## PROVINCIAL AUDITOR RETIREMENT

On December 31, 1991, the Provincial Auditor, Douglas F. Archer, FCA, retired from the Office and the Public Service of Ontario.

Doug Archer was employed for almost 26 years with the Public Service and served 20 of those years as Director, Assistant Provincial Auditor and Provincial Auditor in the Office of the Provincial Auditor for the Province. The contribution he made to the success of the Office and its programs of service to the Legislative Assembly and the public was substantial, and he will be greatly missed. Under his leadership, the amendments to the *Audit Act* passed in 1978 which provided for the expanded audit mandate now commonly known as 'value for money auditing' became operationalized and regularized in the Office. Today, approximately 75 per cent of our audit resources are directed to this activity. This accomplishment, in my view, is all the more noteworthy when one considers the resources available to the Office. In 1982, the year of his appointment, the Office budget funded 103 staff positions. Some ten years later, the 1992/93 budget funded 101 positions.

During his tenure, the full mandate provided under the *Audit Act* was exercised. By performing inspection audits of the major transfer payment recipients—such as colleges, universities, hospitals and school boards—the legislators, ministries and transfer payment

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recipients became aware that vastly improved methods were needed to demonstrate accountability for the resources transferred.

## **EXTERNAL ADVISORY COMMITTEE**

Upon the retirement of the Provincial Auditor, the terms of the members of the Advisory Committee also ended.

On behalf of all the staff and Doug Archer, I wish to publicly acknowledge in this Report the contribution that these people made and thank them for the assurance that they provided to the Office from their informed and wise counsel. Many thanks to Rendall Dick, Patrick Reid, Jack Stokes, George Taylor and Adam Zimmerman for sharing their time, knowledge, and insights with us.





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## CHAPTER SIX:

# The Standing Committee on Public Accounts

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## 6

### APPOINTMENT AND COMPOSITION OF THE COMMITTEE

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each Session of Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chair whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on November 28, 1990, soon after the commencement of the first session of the Thirty-fifth Parliament, and was continued for the duration of the session. A new Committee was appointed on April 14, 1992, soon after the commencement of the second session. The current membership of the Committee is as follows:

Remo Mancini, Chair, Liberal  
Joseph Cordiano, Vice-Chair, Liberal  
Robert Callahan, Liberal  
Donald Cousens, Progressive Conservative  
Noel Duignan, New Democrat  
Robert Frankford, New Democrat  
Bernard Grandmaître, Liberal  
Pat Hayes, New Democrat  
Paul Johnson, New Democrat  
Lawrence O'Connor, New Democrat  
Anthony Perruzza, New Democrat  
David Tilson, Progressive Conservative

### ROLE OF THE COMMITTEE

The role of the Committee, on behalf of the Assembly and ultimately the public, is to hold the Cabinet and the Government bureaucracy accountable for their administration.

In order to fulfil this role, the Committee is empowered to review and report to the Assembly its observations, opinions and recommendations on selected matters in the Report of the Provincial Auditor and the Public Accounts. These documents are referred to the Committee as soon as they are tabled.

The Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of operations; the effectiveness of programs in

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achieving objectives; controls over assets, expenditures and the assessment and collection of revenues; and, the reliability and appropriateness of information in the Public Accounts.

## **PROVINCIAL AUDITOR'S ROLE IN THE PROCESS**

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of Government programs and financial activities.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

## **COMMITTEE PROCEDURES AND OPERATIONS**

### **GENERAL**

The Committee meets on Thursday mornings when the Legislature is sitting. For the past several years it has also met more frequently during the summer and winter when the Legislature has not been sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports.

At meetings dealing with ministry operations, a Deputy Minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, Ministers rarely attend. When the Committee is reviewing Crown agencies, the Chief Executive Officer and, at times, the Chair of the Board attend the meetings. They are usually accompanied by senior agency staff.

### **MEETINGS HELD**

From September 1991 to August 1992 the Committee met regularly on its designated meeting day while the Legislature was sitting and also for a four-day period during the recess between the first and second sessions of the Thirty-fifth Parliament. The Committee spent most of its time on the following:

- Continuing its review of OHIP billings, with particular emphasis on increased billings from drug and alcohol treatment centres located in the United States. Selected treatment centres in the United States and Ontario were visited by the Committee.
- Reviewing the results of the Provincial Auditor's inspection audit of The Toronto General Division of The Toronto Hospital.
- Organizing the Committee's agenda.
- Considering the appointment of the Provincial Auditor as referred to the Committee by the Assembly.

### **MOTIONS PASSED AT MEETINGS**

The Committee, pursuant to section 17 of the *Audit Act*, passed motions in May and June 1992 requesting the Provincial Auditor to perform special audits and report to the Committee on the following:

- Follow-up audit of The Toronto General Division of The Toronto Hospital;
- The Office of the Ombudsman; and

- 
- The Office of the Registrar General.

## COMMITTEE PROCEDURES

In recent years the Committee has adopted the following procedures and approaches to increase its effectiveness:

- in-depth briefings and preparation;
- more frequent reports to the Legislature;
- increased follow-up of Committee recommendations; and
- site visits to discuss concerns and obtain first-hand knowledge of everyday working conditions in the field.

# 6

## REPORTS OF THE COMMITTEE

### GENERAL

As noted above, the Committee has adopted the practice of more frequent reporting to the Legislature. Each report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of comments and recommendations.

The Committee also issues additional reports on an annual or biennial basis which include summaries of previously issued reports. All reports are available through the Clerk of the Committee, thus affording public access to full details of Committee deliberations.

### COMPLETED REPORTS

In June 1992 the Committee tabled two reports in the Legislature as follows:

- 1990-1991 biennial report;
- Report on OHIP Payments to Out-of-Province Drug and Alcohol Treatment Facilities.

The Clerk of the Committee is responsible for following up the actions taken by ministries/agencies on the Committee's recommendations. Our Office liaises with the Clerk to ascertain the status of the recommendations, and would bring any significant matters arising therefrom to the attention of the Legislature in our Annual Reports.

## STATUS OF COMMITTEE RECOMMENDATION RESPECTING AMENDMENTS TO THE *AUDIT ACT*

The Committee had recommended that the *Audit Act* be amended to provide the Provincial Auditor with the discretionary authority to perform value for money audits of any government agency and all transfer payment recipients.

As noted in our 1991 Report, government officials were in the process of reviewing the Provincial Auditor's draft amendments to the *Audit Act*. As part of this review, all ministries were asked to comment on the proposed revisions. Feedback received from the various ministries and some major transfer payment recipients has been discussed with our Office.

In preparing comments on the proposed revisions, some of the ministries consulted with their major transfer payment recipients as to the impact of the proposed legislation. A number of recipient organizations in turn wrote to the ministries with their concerns and

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expressed their wish to participate in a consultation process. In this regard, work is now under way to develop a consultation plan for the transfer payment sector, accounting bodies and any other interested stakeholders. It is intended that the proposed consultation plan will be discussed with the Chair of the Public Accounts Committee to ensure the agreement of the Committee.

## **OTHER COMMITTEE ACTIVITIES**

### **CANADIAN COUNCIL OF PUBLIC ACCOUNTS COMMITTEES**

The fourteenth annual meeting of the Council was held in Fredericton from July 5 to 7, 1992. These annual meetings, normally attended by Public Accounts Committee members from all the provinces and the federal government, provide a forum for the exchange of ideas and information. The 1992 meeting was attended by the Chair of the Ontario Committee.

The annual meeting included: a round-table discussion of each delegation's Public Accounts Committee activities during the past year; sessions dealing with Crown corporation accountability, and accountability within the public service; and, a joint session with the Conference of Legislative Auditors.





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## EXHIBIT 1:

# Cross-Ministry and Special Audits

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### CROSS-MINISTRY AUDITS

- Purchasing for Supplies and Equipment
  - Attorney General
  - Government Services
  - Health
  - Natural Resources
  - Solicitor General
  - Tourism and Recreation
  - Transportation
- Information Technology Security
  - Ministries and Schedule 1 Crown Agencies

### SPECIAL AUDITS

#### Reviews for the Standing Committee on Public Accounts:

- Deputy Ministers' Expenditures

#### Other:

- Ontario Educational Communications Authority (TVOntario)
  - Issues Relating to Fiscal Responsibility and Other Matters



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## EXHIBIT 2:

# Ministry and Crown Agency Audits

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### AGRICULTURE AND FOOD

- Market Revenue Program

### CITIZENSHIP

- Citizenship Support Program

### COLLEGES AND UNIVERSITIES

- Accountability Framework
- Follow-up Audits on:
  - Algonquin College
  - Centennial College
  - Georgian College

### COMMUNITY AND SOCIAL SERVICES

- Family Benefits Assistance

### CONSUMER AND COMMERCIAL RELATIONS

- Elevating Devices
- Real Property Registration

### ENVIRONMENT

- Surface Water Quality Improvement

### GOVERNMENT SERVICES

- Corporate Payroll System

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## **HEALTH**

- Queen Street Mental Health Centre
- Community Mental Health
- Health Registration System

## **HOUSING**

- Microcomputer Network
- Non-Profit Housing

## **LIQUOR CONTROL BOARD OF ONTARIO**

- Selling Prices, Transportation of Liquor, and Treasury Operations

## **NATURAL RESOURCES**

- Timber Stumpage, Hunting and Fishing Licences, and Provincial Park Fees

## **PUBLIC TRUSTEE OF ONTARIO**

- Administration of Trusts and Estates

## **REVENUE**

- Employer Health Tax
- Property Assessment Operations

## **TRANSPORTATION**

- Highway Maintenance Activities



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## EXHIBIT 3:

# Agencies of the Crown

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### (I) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY THE PROVINCIAL AUDITOR

Agricultural Rehabilitation and Development Directorate of Ontario

Alcoholism and Drug Addiction Research Foundation

Algonquin Forestry Authority

Centennial Centre of Science and Technology

Commission on Election Finances

Crop Insurance Commission of Ontario

Eastern Ontario Development Corporation

Egg Fund Board (December 31)

*Election Act, 1984* - Election Fees and Expenses

Environmental Compensation Corporation

Farm Income Stabilization Commission of Ontario

Fund for Milk and Cream Producers -

The Ontario Farm Products Marketing Commission

Grain Financial Protection Board

Innovation Ontario Corporation

Interim Gross Revenue Insurance Plan Program Account

Interim Waste Authority Ltd.

Legal Aid Fund, Law Society of Upper Canada

Liquor Control Board of Ontario

Livestock Financial Protection Board

Northern Ontario Development Corporation



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Northern Ontario Heritage Fund Corporation  
Office of the Assembly  
Office of the Information and Privacy Commissioner  
Office of the Official Guardian  
Office of the Ombudsman  
Ontario Aerospace Corporation  
Ontario Agricultural Museum  
Ontario Cancer Treatment and Research Foundation  
Ontario Development Corporation  
Ontario Educational Communications Authority  
Ontario Film Development Corporation  
Ontario Food Terminal Board  
Ontario Heritage Foundation  
Ontario Housing Corporation (December 31)  
Ontario Industrial Training Institute  
Ontario International Corporation  
Ontario Junior Farmer Establishment Loan Corporation  
Ontario Lottery Corporation  
Ontario Municipal Improvement Corporation  
Ontario Northland Transportation Commission (December 31)  
Ontario Place Corporation  
Ontario Racing Commission  
Ontario Stock Yards Board (June 30)  
Ontario Training Corporation  
Ontario Waste Management Corporation  
Pension Commission of Ontario  
Police Complaints Commissioner  
Potato Financial Protection Board  
Processing-Vegetable Financial Protection Board  
Province of Ontario Council for the Arts

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Provincial Judges Pension Fund, Provincial Judges Pension Board  
Public Trustee of the Province of Ontario  
Rent Review Hearings Board  
Soldiers' Aid Commission  
St. Clair Parkway Commission (December 31)  
Superannuation Adjustment Fund

## **(II) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY ANOTHER AUDITOR UNDER THE DIRECTION OF THE PROVINCIAL AUDITOR.**

Board of Community Mental Health Clinic, Guelph  
Clarke Institute of Psychiatry  
Niagara Parks Commission (October 31)  
Ontario Cancer Institute  
Ontario Mental Health Foundation  
St. Lawrence Parks Commission  
Toronto Area Transit Operating Authority  
Workers' Compensation Board (December 31) 

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### NOTES:

1. Parentheses indicate fiscal periods ending on a date other than March 31.
2. Changes during the 1992 fiscal year:
  - Newly Established Agencies*
    - Interim Gross Revenue Insurance Plan Program Account
    - Interim Waste Authority Ltd.
    - Ontario Aerospace Corporation
  - Deletions Due to Change in Designation*
    - Accountant of the Supreme Court of Ontario
    - Liquor Licence Board of Ontario
  - Terminated Agencies*
    - John Graves Simcoe Memorial Foundation
    - Tobacco Producers' Assistance Fund
3. Inactive agencies as at March 31, 1992:
  - North Pickering Development Corporation
  - Ontario Deposit Insurance Corporation
  - Ontario Land Corporation
  - Ontario Pavilion Expo '86
  - Ontario Telephone Development Corporation

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**EXHIBIT 4:**

# **Crown Controlled Corporations**

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**CORPORATIONS WHOSE ACCOUNTS ARE AUDITED BY AN AUDITOR OTHER THAN THE PROVINCIAL AUDITOR, WITH FULL ACCESS BY THE PROVINCIAL AUDITOR TO AUDIT REPORTS, WORKING PAPERS AND OTHER RELATED DOCUMENTS**

Board of Funeral Services  
Board of Governors of The Ontario Institute for Studies in Education  
Board of Ophthalmic Dispensers  
Board of Radiological Technicians  
Corporation of the Improvement District of Gauthier  
Corporation of the Improvement District of Matachewan  
Governing Board of Dental Technicians  
Governing Board of Denture Therapists  
McMichael Canadian Art Collection  
Metropolitan Toronto Convention Centre Corporation  
Moosonee Development Area Board  
Ontario Board of Examiners in Psychology  
Ontario Centre for Resource Machinery Technology  
Ontario Cream Producers' Marketing Board  
Ontario Energy Corporation  
Ontario Historical Studies Series  
Ontario Hydro  
Ontario Milk Marketing Board  
Ontario Mortgage Corporation

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Ontario Municipal Employees Retirement Board  
Ontario Share and Deposit Insurance Corporation  
Ontario Teachers' Pension Plan Board  
Ontario Transportation Development Corporation  
Ontario Trillium Foundation  
Ortech Corporation  
Ottawa Congress Centre  
Public Service Pension Board  
Royal Ontario Museum  
Science North  
Stadium Corporation of Ontario Limited  
Teranet Land Information Services Inc.  
Thunder Bay Ski Jumps Limited  
Urban Transportation Development Corporation Limited 

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NOTE: Changes during the 1992 fiscal year:

*Newly Established Corporation*

- Teranet Land Information Services Inc.

*Deletion Due to Change in Designation*

- Corporation of the Improvement District of Cameron



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## EXHIBIT 5:

# Status of Previous Annual Report Recommendations

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This exhibit provides the status of all suggested corrective action and recommendations which were:

- (a) considered unresolved per Exhibit 6 of the 1991 Auditor's Report.
- (b) contained in the body of the 1991 Auditor's Report.

## RESOLVED AS AT DATE OF PREPARATION OF 1992 PROVINCIAL AUDITOR'S REPORT:

### CROSS-MINISTRY AND SPECIAL REVIEWS

<u>Report</u>	<u>Section</u>	<u>Description/Status</u>
1989	2.6	Government overtime payments <ul style="list-style-type: none"><li>• In process of implementation.</li></ul>
1990	2.6	Government vehicle fleet administration <ul style="list-style-type: none"><li>• Partially implemented.</li></ul>
1991	2.4	Government payments system <ul style="list-style-type: none"><li>• Partially implemented.</li></ul>
1991	2.5	Government microcomputers <ul style="list-style-type: none"><li>• Partially implemented.</li></ul>
1991	2.6	Government minicomputers <ul style="list-style-type: none"><li>• Partially implemented.</li></ul>
1991	2.7	Government mainframe computers <ul style="list-style-type: none"><li>• Partially implemented.</li></ul>

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## MINISTRIES

### Community and Social Services

- |      |     |   |
|------|-----|---|
| 1990 | 3.2 | Ministry facilities for the developmentally handicapped <ul style="list-style-type: none"><li>• In process of implementation.</li></ul> |
| 1990 | 3.3 | Agencies for the developmentally handicapped <ul style="list-style-type: none"><li>• In process of implementation.</li></ul>            |
| 1990 | 3.4 | Homes for the aged <ul style="list-style-type: none"><li>• Partially implemented.</li></ul>   |

### Education

- |      |     |   |
|------|-----|---|
| 1990 | 3.6 | Financial accountability frameworks for grants to school boards <ul style="list-style-type: none"><li>• In process of implementation.</li></ul> |
|------|-----|---|

### Government Services

- |      |     |   |
|------|-----|---|
| 1990 | 3.7 | Computer services and security, Toronto Development Centre <ul style="list-style-type: none"><li>• Partially implemented.</li></ul> |
|------|-----|---|

### Health

- |      |      |   |
|------|------|---|
| 1989 | 3.9  | Land ambulance services <ul style="list-style-type: none"><li>• In process of implementation.</li></ul>                 |
| 1990 | 3.9  | Nursing home services <ul style="list-style-type: none"><li>• Partially implemented.</li></ul>                          |
| 1990 | 3.10 | Access to extended care beds <ul style="list-style-type: none"><li>• In process of implementation.</li></ul>            |
| 1990 | 3.11 | Home care assistance <ul style="list-style-type: none"><li>• Substantially implemented.</li></ul>                       |
| 1990 | 3.13 | OHIP billings, Provider Services Branch <ul style="list-style-type: none"><li>• In process of implementation.</li></ul> |
| 1991 | 3.6  | Hospital operations <ul style="list-style-type: none"><li>• In process of implementation.</li></ul>                     |

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1991	3.7	Ontario Drug Benefit Plan <ul style="list-style-type: none"> <li>• In process of implementation.</li> </ul>
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### **Intergovernmental Affairs**

1990	3.14	Information technology purchases <ul style="list-style-type: none"> <li>• Substantially implemented.</li> </ul>
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### **Solicitor General**

1990	3.15	Ontario Provincial Police field operations and quartermaster stores <ul style="list-style-type: none"> <li>• Partially implemented.</li> </ul>
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## **CROWN AGENCIES**

### **Liquor Control Board of Ontario**

1991	3.14	Employee expenses <ul style="list-style-type: none"> <li>• Implemented.</li> </ul>
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### **Office of the Assembly**

1990	3.17	Travel costs <ul style="list-style-type: none"> <li>• Not implemented. The Board of Internal Economy reviewed automobile leasing options and mileage rates for the use of personal automobiles and decided no changes were required in the funding of MPPs travel costs.</li> </ul>
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### **Ontario Cancer Treatment and Research Foundation**

1990	3.18	Overseas recruitment expenditure <ul style="list-style-type: none"> <li>• The Foundation indicated that no further action was warranted as the overseas recruitment trip was an unusual occurrence. No similar trip has occurred since nor is any foreseen.</li> </ul>
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## TO BE REVIEWED IN SUBSEQUENT YEARS:

The status of recommendations will normally be determined during the next cyclical audit of the areas involved. However, where possible, we endeavour to ascertain the status earlier.

### MINISTRIES

#### Agriculture and Food

1991	3.2	Livestock and dairy inspection
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#### Community and Social Services

1991	3.3	Surrey Place Centre
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#### Environment

1991	3.4	Waste management
------	-----	------------------

#### Financial Institutions

1991	3.5	Deposit institutions
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#### Industry, Trade and Technology

1991	3.8	Industrial assistance
------	-----	-----------------------

#### Labour

1991	3.9	Construction health and safety
------	-----	--------------------------------

1991	3.10	Employment standards
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#### Office Responsible for Women's Issues

1991	3.11	Ontario Women's Directorate
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### **Tourism and Recreation**

1991	3.12	Recreation, sports and fitness
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### **Transportation**

1991	3.13	Municipal transit
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## **CROWN AGENCIES**

### **Ontario Housing Corporation**

1991	3.15	Government-owned housing
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### **Ontario Waste Management Corporation**

1991	3.16	Waste treatment facility and other matters
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**EXHIBIT 6:**

# Management Board and Treasury Board Orders

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**AMOUNTS AUTHORIZED AND EXPENDED FOR THE YEAR ENDED  
MARCH 31, 1992, REPORTED IN ACCORDANCE WITH SECTION  
12(2)(E) OF THE *AUDIT ACT***

Ministry	Date of Order	Authorized	Expended
		\$	\$
Agriculture and Food	Mar. 17, 1992	<u>30,002,200</u>	<u>27,641,934</u>
Attorney General	Dec. 17, 1991	32,585,800	32,585,800
	Jan. 21, 1992	1,001,700	790,611
	Feb. 4, 1992	26,954,600	26,380,905
	Mar. 3, 1992	24,214,400	23,242,230
	Apr. 7, 1992	4,533,300	2,794,967
	Apr. 14, 1992	<u>110,600</u>	<u>110,273</u>
		<u>89,400,400</u>	<u>85,904,786</u>
Cabinet Office	Mar. 24, 1992	<u>350,000</u>	<u>220,970</u>
Citizenship	Mar. 17, 1992	2,457,100	1,964,223
	Apr. 7, 1992	<u>1,347,400</u>	<u>48,956</u>
		<u>3,804,500</u>	<u>2,013,179</u>
Colleges and Universities	Dec. 10, 1991	48,900,000	48,900,000
	Mar. 10, 1992	2,248,300	1,606,874
	Apr. 21, 1992	<u>299,400</u>	<u>299,373</u>
		<u>51,447,700</u>	<u>50,806,247</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Community and Social Services	Mar. 17, 1992	182,400,000	76,657,624
	Apr. 14, 1992	24,178,900	22,877,836
	Apr. 21, 1992	<u>3,778,000</u>	<u>3,617,555</u>
		<u>210,356,900</u>	<u>103,153,015</u>
Consumer and Commercial Relations	Jan. 14, 1992	693,200	644,100
	Feb. 18, 1992	<u>8,201,000</u>	<u>7,496,350</u>
		<u>8,894,200</u>	<u>8,140,450</u>
Correctional Services	Mar. 10, 1992	28,148,000	28,022,109
	Apr. 7, 1992	<u>2,050,000</u>	<u>1,084,925</u>
		<u>30,198,000</u>	<u>29,107,034</u>
Culture and Communications	Apr. 14, 1992	<u>1,458,800</u>	<u>917,934</u>
Education	Feb. 4, 1992	38,600	38,600
	Mar. 3, 1992	14,974,300	14,225,386
	Apr. 14, 1992	<u>610,500</u>	<u>245,868</u>
		<u>15,623,400</u>	<u>14,509,854</u>
Energy	Mar. 31, 1992	<u>150,000</u>	<u>48,518</u>
Environment	Apr. 7, 1992	<u>5,577,300</u>	<u>3,858,478</u>
Financial Institutions	Oct. 29, 1991	6,851,800	6,851,800
	Dec. 17, 1991	5,425,800	3,547,777
	Mar. 10, 1992	<u>1,574,700</u>	<u>1,287,275</u>
		<u>13,852,300</u>	<u>11,686,852</u>
Government Services	Sept. 17, 1991	650,000	641,732
	Jan. 14, 1992	1,944,000	1,944,000
	Feb. 25, 1992	5,772,800	5,586,282
	Apr. 14, 1992	<u>34,684,234</u>	<u>31,329,483</u>
		<u>43,051,034</u>	<u>39,501,497</u>
Health	Apr. 14, 1992	<u>144,430,400</u>	<u>130,361,572</u>
Housing	Apr. 14, 1992	<u>2,633,400</u>	<u>2,391,381</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Industry, Trade and Technology	Mar. 24, 1992	<u>7,225,800</u>	<u>6,158,646</u>
Intergovernmental Affairs	Feb. 18, 1992	<u>86,000</u>	<u>59,092</u>
Labour	Dec. 12, 1991	2,302,900	2,279,152
	Feb. 18, 1992	690,000	663,867
	Feb. 25, 1992	1,067,200	956,208
	Mar. 10, 1992	5,663,800	5,073,191
	Mar. 31, 1992	<u>256,500</u>	<u>59,018</u>
		<u>9,980,400</u>	<u>9,031,436</u>
Office of the Lieutenant Governor	Mar. 31, 1992	<u>24,300</u>	<u>18,943</u>
Management Board of Cabinet	Apr. 7, 1992	<u>200,000</u>	<u>184,109</u>
Municipal Affairs	Apr. 7, 1992	<u>1,351,900</u>	<u>1,220,115</u>
Ontario Native Affairs Secretariat	Jan. 7, 1992	8,044,800	8,044,800
	Feb. 4, 1992	377,000	330,968
	Feb. 11, 1992	218,000	—
	Mar. 17, 1992	<u>223,200</u>	<u>—</u>
		<u>8,863,000</u>	<u>8,375,768</u>
Natural Resources	July 9, 1991	10,000,000	10,000,000
	Aug. 14, 1991	10,000,000	10,000,000
	Sept. 10, 1991	15,000,000	15,000,000
	Sept. 24, 1991	10,000,000	10,000,000
	Nov. 19, 1991	8,000,000	6,336,238
	Mar. 24, 1992	11,360,900	9,779,540
	Apr. 14, 1992	<u>4,966,700</u>	<u>4,788,525</u>
		<u>69,327,600</u>	<u>65,904,303</u>
Northern Development and Mines	Mar. 3, 1992	4,747,100	4,747,100
	Mar. 10, 1992	1,357,800	1,321,276
	Mar. 27, 1992	<u>7,400,000</u>	<u>7,399,710</u>
		<u>13,504,900</u>	<u>13,468,086</u>



Ministry	Date of Order	Authorized	Expended
		\$	\$
Revenue	Feb. 25, 1992	1,835,600	1,749,649
	Mar. 24, 1992	14,621,500	14,171,976
	Mar. 31, 1992	<u>65,000</u>	<u>58,335</u>
		<u>16,522,100</u>	<u>15,979,960</u>
Solicitor General	Mar. 3, 1992	38,574,200	37,797,479
	Mar. 10, 1992	<u>1,109,100</u>	<u>891,136</u>
		<u>39,683,300</u>	<u>38,688,615</u>
Tourism and Recreation	Sept. 10, 1991	600,000	600,000
	Jan. 28, 1992	2,545,200	2,545,200
	Apr. 14, 1992	<u>1,451,600</u>	<u>1,019,364</u>
		<u>4,596,800</u>	<u>4,164,564</u>
Transportation	Jan. 28, 1992	37,906,500	37,570,517
	Feb. 25, 1992	1,583,800	1,258,128
	Mar. 24, 1992	9,232,100	8,256,392
	Apr. 14, 1992	<u>42,600,000</u>	<u>42,330,575</u>
		<u>91,322,400</u>	<u>89,415,612</u>
Treasury and Economics	Jan. 28, 1992	421,000	421,000
	Mar. 17, 1992	<u>1,103,000</u>	<u>967,024</u>
		<u>1,524,000</u>	<u>1,388,024</u>
Office Responsible for Women's Issues	Apr. 7, 1992	<u>7,100</u>	<u>—</u>
<b>Total Board Orders</b>		<b><u>915,450,134</u></b>	<b><u>764,320,974</u></b>















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Government of Ontario  
Publication

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# *1993 annual report*

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## Office of the Provincial Auditor



*accounting  
accountability  
value for money*

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THE HONOURABLE  
DAVID WARNER, M.P.P.

Speaker of the Legislative Assembly of Ontario

Dear Mr. Warner:

I am pleased to transmit my Annual Report for submission to the Assembly in accordance with the provisions of section 12(1) of the *Audit Act*.

A handwritten signature in black ink, reading "Erik Peters".

Erik Peters, C.A.  
Provincial Auditor

December 7, 1993

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## CHAPTER ONE

# Introduction

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## THE AUDITING AND REPORTING PROCESS

Because of the size and complexity of the Province's operations and administration, it is impossible to audit each program every year. Instead, the Office conducts selected audits in a cycle, so that all major programs are considered for review every five years. The contents of this Annual Report were selected by the Office's senior management based on criteria such as financial impact, significance to the Legislature, public sensitivity or safety, and adherence to good management practices (economy, efficiency, and effectiveness measures).

Before beginning an audit, Office staff meet with representatives of the auditees to discuss the focus of the audit in general terms. During the audit, Office staff maintain an ongoing dialogue with the auditee to review the progress of the audit and ensure open lines of communication. After the audit staff conclude their on-site work, a draft report is prepared, reviewed internally, and discussed with the auditee. A management response to our recommendations is received and incorporated into the final draft report. The Provincial Auditor and senior Office staff meet with the Deputy Minister or agency head to discuss the final draft report, and the auditee is given an opportunity to finalize the responses. Those responses are included in the report sections selected for this Annual Report. The Office is pleased to acknowledge the active co-operation of the staff of audited ministries and agencies throughout this year's process.

Under section 12 of the *Audit Act*, the Provincial Auditor is required to report annually through the Speaker to the Legislative Assembly.

Prior to the tabling of the Annual Report, separate and simultaneous lockups are arranged for members of the Assembly and their research staff, representatives of the media, and representatives of audited ministries and agencies. When the lockups conclude, the Provincial Auditor is available to answer the media's questions.

Each year, the Standing Committee on Public Accounts selects sections of the Provincial Auditor's Annual Report for review, and calls upon representatives of the audited ministries or agencies to attend as witnesses.

## MATTERS OF MAJOR SIGNIFICANCE

### THE QUALIFIED OPINION ON THE CONSOLIDATED REVENUE FUND

There are many positive aspects of the government's current financial systems. It should be stressed that for 1993, exception has only been taken to the net deferral of \$528 million of payments to pension funds.

Beginning in 1989, and through to 1992, the government preflowed expenditures. This means that expenditures were paid in, and allocated to, the fiscal year preceding the one in which the expenditure was actually incurred. The effect was that beginning with the fiscal year ended March 31, 1991, the government reported a lower annual deficit than what the deficit would have been had all expenditures been recorded in the accounting period in which they were incurred. This can be seen in the following table:

(\$ MILLIONS)

	<b>Reported Surplus (Deficit)</b>	<b>Preflows (Deferred Flows)</b>	<b>Reversal of Previous Year</b>	<b>Net Effect</b>	<b>Adjusted Surplus (Deficit)</b>
1989	(1,479)	823	—	823	(656)
1990	90	884	(823)	61	151
1991	(3,029)	196	(884)	(688)	(3,717)
1992	(10,930)	52	(196)	(144)	(11,074)
1993	(11,900)	(528)	(52)	(580)	(12,480)

The Provincial Auditor commented on this practice as follows in the 1990, 1991, and 1992 Annual Reports:

**1990**

*The effect of the government's recent practice of unbudgeted advance payments has been to shift expenditures forward into years for which they were not planned, thus affecting the comparability of budgeted plan to actual results, an important accountability measure of the government.*

*When such advance payments are not budgeted and are announced in the latter part of fiscal years, there is a perception that the government is, in reality, managing and adjusting its actual results so they will more closely parallel its budgeted results. This, in turn, raises doubts concerning the integrity of the accounting process.*

*Questions concerning the intent of preflows have been raised in the Legislature in both 1989 and 1990. Media comment has also been evident. In order to allay any doubts concerning the integrity of the accounting process, we recommend that the government consider excluding any future preflows from expenditures and treating them instead as advances to be reported as financial assets at the fiscal year end. These assets could then be appropriately converted to expenditure in the succeeding year.*

**1991**

*The practice of preflowing expenditures, particularly in the absence of a consistent pattern, can be viewed as an attempt to "manage" operating results. To allay any doubts concerning the integrity of the accounting process, we reiterate the recommendation in last year's Report - that the government treat preflows as advances rather than expenditures. These advances could then be reported as financial assets at year end and appropriately converted to expenditure in the succeeding year.*

**1992**

*As stated in previous reports, the practice of preflowing expenditures can and has been viewed as an attempt to "manage" the deficit, thus raising doubts concerning the integrity of the*

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*accounting process. We again recommend that the government treat preflows as advances to be reported as financial assets at the fiscal year end. These assets could then be appropriately converted to and reported as expenditure in the succeeding year.*

In early 1993, the Office of the Provincial Auditor began to consider what action to take on the budgeted deferred flow of the pension payments of some \$584 million. We had found that this was the first time, to the best of our knowledge, that a significant expenditure of the current fiscal year was deferred to the next fiscal period. What was overlooked was that the expenditure had actually been incurred in the year ended March 31, 1993.

We concluded that this treatment of the pension payments was an inappropriate shift of expenditures between two fiscal years; as well it illustrates the *permissiveness* of the current accounting rules. We also concluded that the accounting rules used were inappropriate because they permit the time when payment is made to determine when the expenditure is recorded. Technically this shift of expenditure was the result of delaying payment by one day, because the message was: if this amount is paid one day before April 1, it is an expenditure of the year ended March 31, 1993; if it is paid one day after March 31 it is an expenditure of the year ended March 31, 1994.

It is a fundamental principle of accounting and financial stewardship that revenue and expenditures must be recorded in the accounting period during which they were earned or incurred.

The deferral of the \$528 million of 1993 expenditures led us also to question the future appropriateness of the modified cash basis of accounting used in keeping the books of the Consolidated Revenue Fund.

The other major reason why we recommend the adoption of more *prescriptive* rather than *permissive* accounting rules is the result of the formation of the Capital Investment Corporations set out in Bill 17. While we raised our concerns about the accountability of the management of these corporations at the Standing Committee on General Government, we would like to focus here on the accounting for their activities as part of the government's financial operations. Our concern is twofold:

1. These corporations should be included in determining the financial position of the Province, because they were essentially carved out of the Consolidated Revenue Fund, but are nevertheless under the control and fiscal responsibility of the Legislative Assembly.
2. Any funding provided to or through these corporations, and contemplated to be repaid out of future voted appropriations, should be recorded as expenditures of the period in which the funding is originally provided. This would follow rules established by the Province in 1986 for such funding. This would properly reflect it as a grant and not, as appears to be contemplated, as a financial asset. It is not an asset, even if flowed through a Capital Investment Corporation. For this, and for any other transaction, form cannot and should not prevail over substance.

For these reasons, we strongly urge that the government adopt the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants, and have outlined in the Auditor's Report the financial stewardship and reporting goals of:

- reflecting revenues and expenditures on an accrual basis of accounting, including the value of pension benefits earned by employees, in order to reflect revenues and expen-



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ditures in the determination of the surplus or deficit for the period in which they are considered to have been earned and incurred, respectively, whether or not such transactions have been settled by the receipt or payment of cash or its equivalent; and

- the inclusion of all organizations owned or controlled by the government, in order to provide an accounting for the full nature and extent of the financial affairs and resources for which the government is responsible.

There is no doubt that achieving these goals takes effort and time as well as the reasonableness and goodwill of all involved in this process, and we are most encouraged by the following statements of the Minister of Finance in a letter of October 18, 1993 to the Provincial Auditor:

*I . . . continue to believe strongly in the need for appropriate accounting approaches to fully reflect the valuable economic contributions of public capital investment.*

*I do agree with you that Government of Ontario accounting practices can be revised to reflect the significant advances in accounting practices in the public sector. In particular, I note your support for the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants.*

*There is no question that implementation of the Public Sector Accounting and Auditing Board recommendations represents a major shift from the established practices of the Government of Ontario. The change-over will be necessarily time-consuming and challenging.*

*To ensure that appropriate measures are undertaken, my ministry officials are analyzing and evaluating the impact of the Public Sector Accounting and Auditing Board recommendations for the year-end March 31, 1994. They will strive to implement them in that fiscal year. I have asked that they continue to meet with staff from the Office of the Provincial Auditor to determine the most appropriate application, and that I be kept closely informed.*

A more detailed discussion of this topic can be found in Chapter Four.

The Provincial Auditor also advocates that the government adopt the same accounting rules for future budgets as for the reporting in the Public Accounts. This would permit the comparison of actual results with the budget on a consistent accounting basis.

## **OBTAINING VALUE FOR MONEY**

A fundamental purpose of value for money audits is to provide reasonable assurance that the objectives set for a program or service by the Legislative Assembly are achieved economically, efficiently, and effectively. The auditor therefore focuses on performance and results obtained.

In conducting this kind of audit we have found instances where there was little or no regular accountability by ministries, agencies, and transfer payment recipients for performance or results obtained. While some work is carried out by program review officers in the Ministry of Finance in connection with budgets and estimates, and in ministries on transfer payments to set amounts to be transferred to institutions or boards, agencies, and commissions, these efforts fall significantly short of an adequate accountability framework or regime.

Among the issues examined by the Standing Committee on Public Accounts in 1993 as a result of 1992 audit reports are the following examples of problems in obtaining value for money for which corrective action, in our opinion, has been too slow.



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Health Insurance and Benefits (1992/93 expenditures for health care services: \$5.1 billion)

While Ministry initiatives were under way in late 1993, there was insufficient reasonable assurance that the Ontario Health Card System established in 1990:

- ensures that health services are provided only to eligible persons; and
- provides an information base to support the formulation of health policies for ensuring that the appropriate level of health services is provided to eligible persons.

Non-profit Housing (1992/93 operating subsidies excluding capital: \$0.6 billion)

Although the program has been operated for many years, practices and procedures are only now being put in place to ensure that the development and allocation of non-profit housing is based on appropriate analyses of need, costs, and financial management information.

The Public Accounts Committee had originally been advised that operating agreements would be in place in 1993. However, operating agreements for a significant number of existing non-profit housing units are only scheduled to be in place by the end of 1994.

### **Corrective Action**

In addition to our concerns about slow corrective action, we are concerned that important areas where corrective action is necessary are all too often identified only through audits, which by necessity are conducted in a multi-year cycle. We have brought this matter to the attention of the Public Accounts Committee, received its support through a motion to pursue the establishment of a workable legislated accountability framework with the Central Agencies, and we are currently pursuing such a framework with them. Further information regarding action on such a framework is outlined in Chapter Two of this Report.

## **SUMMARY OF AUDIT RECOMMENDATIONS**

Following are highlights for the 21 audit reports contained in Chapter Three of this Annual Report. The auditees' responses in Chapter Three indicate that action has already been taken or is planned to be taken to implement many of our recommendations.

### **3.01 - Crop Insurance Commission of Ontario (Agriculture and Food)**

We urged the implementation of the recommendations of a consultant's report to strengthen the internal controls and accounting procedures of this program for farmers to improve the program's performance.

### **3.02 - Criminal Law (Attorney General)**

We examined whether the Ministry's systems, policies, and procedures encouraged timeliness, efficiency, and consistency in the prosecution of criminal cases. We made several recommendations for improvement in case resolution procedures and resources, and for better utilization of courtroom and judicial resources. These recommendations complement several improvement initiatives currently under way at the Ministry.

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### **3.03 - Ontario Legal Aid Plan (Attorney General)**

We assessed the Plan's procedures to ensure that legal aid certificates are issued to eligible applicants on a timely basis. We recommended that approval procedures for Legal Aid applications be streamlined and that there be stricter compliance with procedures to ensure adequate verification of eligibility.

### **3.04 - Child and Family Intervention Program (Community and Social Services)**

We assessed the Ministry's monitoring of the counselling and training services provided by about 200 non-profit agencies to alleviate the social, emotional, and behavioural problems of children and their families. We recommended that the Ministry clarify the program's definition to ensure proper tracking of costs. As well, we recommended that the Ministry ensure that serious occurrences are reported as required and that review procedures for non-residential programs be introduced.

### **3.05 - Young Offender Services (Community and Social Services)**

We assessed the Ministry's procedures for monitoring its programs for offenders between 12 and 15 years of age. We recommended improvements in documentation of the enforcement of court orders to provide assurance that the Ministry has complied with all the terms and conditions of Court Orders before young offenders are released. We also recommended improvements in ensuring that facilities comply with the Ministry's policies and procedures, especially with the requirements for reporting serious occurrences, and that funding procedures be improved in order to allocate funds on a more appropriate basis.

### **3.06 - Registrar General Imaging System (Consumer and Commercial Relations)**

We reviewed the impact on customer service and benefits of a project to use imaging technology in the storage and retrieval of documents such as birth, marriage, and death certificates. We recommended that the entire registration process be streamlined to achieve greater benefits from this technology and improve service to the public.

### **3.07 - Curriculum Development (Education and Training)**

We assessed the cost effectiveness of curriculum implementation processes and the Ministry's procedures to measure and report the effectiveness of its services. Our overall observation was that present arrangements for the implementation of curriculum are not adequate to ensure that curriculum of consistent quality is taught and learned cost effectively.

### **3.08 - Special Education (Education and Training)**

We assessed whether procedures were in place to ensure compliance with legislation and to measure and report on effectiveness. We observed that the Ministry does not yet have satisfactory procedures in place to fulfil its legislated responsibility to ensure that educational programs and services are consistently made available to exceptional children.

### **3.09 - Information Technology Project at the Student Support Branch (Education and Training)**

We assessed the management and benefits resulting from the implementation of an integrated imaging system to computerize the processing of applications for Ontario Student Assistance Program grants and loans. We noted that a number of best practices had been

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utilized and recommended that the Ministry periodically measure and report on its achievements.

### **3.10 - Transfer Payments Under the Energy Development and Management Program (Environment and Energy)**

We assessed whether transfer payments made to increase the effectiveness and efficiency of energy management were in compliance with legislation and the extent to which recipients were held accountable for their use of public funds. We recommended criteria and guidelines be established for assessing proposals for grants and that the performance of grant recipients be more appropriately evaluated by the Ministry.

### **3.11 - Ontario Insurance Commission (Finance)**

We assessed whether the Commission was adequately and cost effectively monitoring the operations of Ontario insurers and was ensuring industry solvency, consumer protection, and compliance with legislation. We concluded that the Commission's regulation of Ontario insurers was generally satisfactory.

### **3.12 - Ontario Health Insurance Plan (Health)**

We assessed whether the processing and payment of claims complied with legislation and policies. Our recommendations included that several administrative processes be improved, including the effectiveness of the Medical Review Committee; that sanctions be considered for health care providers with undesirable patterns of practice; that improvements be made in the corrective action taken on rejected claims of care providers; and that the means used to detect questionable billings be augmented.

### **3.13 - Public Health Activity (Health)**

We assessed the Ministry's procedures to ensure value for money for the grants provided to public health agencies. We recommended that target dates be established for the implementation of the 1988 Management Board Directive on the accountability of transfer payment recipients. We also recommended that the Ministry make greater efforts to minimize vaccine wastage.

### **3.14 - Equipment Leasing (Health)**

We assessed whether the Ministry leased equipment economically and in accordance with policies and procedures. We recommended better management of the leasing of photocopiers, and improvements in tender specifications for leasing aircraft for patient transfer.

### **3.15 - Grants to Conservation Authorities (Natural Resources)**

We assessed the Ministry's systems and procedures to ensure that grants were spent economically and in accordance with Ministry requirements. We recommended that the Ministry develop a process for measuring and reporting the effectiveness of the conservation authorities program, that the readiness of projects proposed for funding be scrutinized more thoroughly, and that conservation authorities be required to investigate ways of minimizing their administrative costs.

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### **3.16 - Emergency Planning Ontario (Solicitor General and Correctional Services)**

We assessed whether procedures were in place to ensure satisfactory monitoring, co-ordination and implementation of emergency preparedness and response. We recommended that measures be taken to more clearly identify program objectives and evaluate results. We also recommended that action be taken to implement nuclear and non-nuclear emergency plans at the provincial and municipal levels.

### **3.17 - Institutional Services (Solicitor General and Correctional Services)**

We assessed whether the Ministry's institutional resources were managed economically and efficiently and whether the Ministry was measuring and reporting the achievement of its corporate objectives.

Our recommendations to improve cost management focused on employment expenditures. As well, we recommended that capital investment in newer facilities be investigated as a way of reducing operating expenditures, that the Ministry strengthen compliance with security procedures, and that achieving corporate objectives regarding inmates' positive personal change be reconsidered due to the short average length of stay of provincial inmates.

### **3.18 - Office of the Fire Marshal (Solicitor General and Correctional Services)**

We assessed the Office's procedures to ensure that it satisfactorily meets its commitments to provide Ontarians with an environment safe from fire and related public safety hazards. We recommended that the Office develop and use effectiveness measures that are more clearly defined.

### **3.19 - Ontario Municipal and Provincial Police Automation Co-operative (Solicitor General and Correctional Services)**

We assessed project management and security for this integrated computerized information exchange system and recommended that its implementation by the OPP be accelerated as much as practical.

### **3.20 - Ontario Provincial Police Telecommunications Project (Solicitor General and Correctional Services)**

Given the past interest of the Standing Committee on Public Accounts in this project, we reviewed the final implementation of this centralized radio communication and dispatching system and concluded that it was delivered on time and within the revised budget.

### **3.21 - Observations on the Annual Statutory Audit of the Workers' Compensation Board**

The Annual Statutory Audit of the Workers' Compensation Board (WCB) is performed by a public accounting firm under the direction of the Provincial Auditor. The 1992 audit highlighted the need for a strengthened internal control framework to assist the WCB in assessing and reducing the levels of exposure and risk.

Recommendations made to the WCB included those to strengthen the system of internal controls, as well as to develop a data access security policy, and to improve reconciliation procedures and controls over the actuarial data used to calculate the benefits liability (\$17.2



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billion at December 31, 1992). It was also recommended that authority levels be reviewed for the approval of the establishment of new subsidiary companies and that a strategy be developed and implemented by the WCB to deal with its net unfunded liability (\$11 billion at December 31, 1992).

## **OTHER INFORMATION IN THIS REPORT**

Chapter Four deals with the Public Accounts of the Province, the Provincial Auditor's qualified opinion on the Province's financial statements, recommendations for future years, and the Consolidated Revenue Fund.

Chapter Five provides background information on the Office of the Provincial Auditor, and Chapter Six discusses the Legislature's Standing Committee on Public Accounts.

Supplementary information is provided in five exhibits at the end of this Annual Report.

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## CHAPTER TWO

# Towards a Workable Legislated Accountability Framework

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In 1989 and 1990, discussions were held with the Standing Committee on Public Accounts concerning the Provincial Auditor's mandate under the existing *Audit Act* for auditing government agencies and transfer payment recipients. The former Provincial Auditor reported that the *Audit Act* restricted the audit of certain government agencies, and transfer payment recipients such as municipalities, universities, school boards, and hospitals, to an examination of accounting records. As transfer payments and activities of most of the government agencies represent a significant portion of government expenditures, the Provincial Auditor proposed that the audit scope be broadened to permit auditing these payments and activities on a value for money basis.

The Committee supported this proposal and in a June 1990 report to the Legislature, made the following recommendation in an effort to enhance accountability:

*The Audit Act should be amended to provide the Provincial Auditor with the discretionary authority to perform value for money audits of any government agency and all transfer payment recipients.*

*The proposed amendments in this Report to the Audit Act should be drafted and introduced for first reading as soon as possible and preferably in 1990.*

During the balance of 1990 and the first half of 1991, the Committee met to review the limited scope inspection audits contained in the 1988, 1989, and 1990 annual reports of the Provincial Auditor on school boards and universities.

Following these reviews, the Committee endorsed the first part of the recommendation of the previous Standing Committee on Public Accounts pertaining to an amendment to the *Audit Act*, and recommended in their June 1991 report to the Legislature that such amendments be introduced in the House for first reading by December 31, 1991.

During 1991 and 1992, government officials undertook an internal review of the proposals and prepared a draft communications package to support consultations on proposed amendments to the *Audit Act* with the transfer payment sector, accounting bodies, and other interested stakeholders.

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In a letter dated December 8, 1992 to the Chair of the Committee, the Treasurer of Ontario, the Honourable Floyd Laughren wrote as follows:

*As I have stated in the past, I support any proposed amendments which will allow the Provincial Auditor's Office to continue their important role in ensuring that value for money continues to be received for all government expenditures.*

## NEW INITIATIVES

On February 4, 1993, Provincial Auditor Erik Peters wrote to the Chair of the Committee concerning the proposed amendments to the *Audit Act*. Pertinent parts of the letter are reproduced as follows:

*While the Provincial Auditor's role is to assess whether value for money has been achieved, it is the responsibility of management to actually ensure that value for money is obtained. Therefore, the current very limited value for money mandate for management and the inadequate accountability framework cannot be overcome by good auditing, which, as you know, can only make recommendations to remedy these weaknesses and deficiencies. This makes it necessary to enhance governance and the achievement of value for money in all government expenditures and activities by establishing appropriate management responsibilities and accountability frameworks for central agencies, ministries, transfer payments and major recipients, Crown corporations, agencies, boards and commissions.*

*It should therefore be a priority that clear management responsibilities and accountability frameworks be built into the legislation governing central agencies, ministries, transfer payments and major recipients, Crown corporations, agencies, boards and commissions, before the *Audit Act* is amended. This recommendation is made for the following major reasons:*

- *Obtaining value for money should be a legislated everyday management responsibility, rather than an indirect requirement imposed through periodic audit examinations under the *Audit Act*.*
- *The ability of the Legislature to hold the various entities, including transfer payment recipients, accountable and the economy, efficiency, and effectiveness of audit examinations conducted by the Provincial Auditor would be greatly enhanced if such a legislated framework for accountability were put in place. This would be so, because the legislated responsibilities would require managers not only to set up accountability frameworks but also, where feasible, to establish internal audit functions. Audits conducted by the Provincial Auditor would then assess compliance with the legislation and regulations flowing from it, and result in reports on that compliance.*
- *Some accountability by Ministries for transfer payments is provided by Management Board of Cabinet in the form of a directive. This directive does not provide for the accountability of recipients of transfer payments. As well, a directive does not have the same status as a legislated accountability framework. However, features of the directive, may well be used to develop a legislated accountability framework for transfer payments.*

On June 17, 1993 Mr. Peters appeared before the Standing Committee on Public Accounts to discuss the letter. His comments are summarized as follows:

*The overall intent is based on the premise that the Legislative Assembly will be better served if the *Audit Act* is amended after the legislated accountability framework is put in place. The principal targets of that accountability framework are essentially the recipients of transfer payments.*

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*These are payments to institutions that are constituted in one form or another. They have boards of directors, have management, have all the functions in place that should be able to provide accountability. Therefore administrative overhead would not be added. These annual payments are in the \$30 billion range, and are subject to only some or very little effective accountability by ministries.*

*There are three reasons for which we are advocating the legislated accountability framework. Foremost would be that the Legislative Assembly and the ministers need better legislated or regulatory tools to establish more effective accountability for the economy, efficiency, and effectiveness of program delivery. Therefore, the first reason is that a framework that is legislated becomes a tool of the Legislative Assembly, of the minister, and of the various functions that can take action to ensure cost-effective program and service delivery.*

*The second reason is that periodic audits are not the tools required for ministry management to ensure that value for money is achieved. Audits can only provide periodic, reasonable assurance. Ministry management and recipients of transfer payments need a framework to hold them accountable for the economy, efficiency, and operational effectiveness of their actions. Once that framework is in place, periodic audits would then become much more efficient and effective.*

*The third reason is that the central agencies need more effective tools to hold ministries accountable for government-wide responsibilities; for example, to have systems, practices and procedures in place to ensure that value for money is obtained in providing services and delivery of programs.*

*The key features of a workable legislated accountability framework are as follows:*

- *Establishment of management responsibilities for reporting performance, plans, and budgets.*
- *Establishment of management responsibilities to maintain proper books and records, financial and management control and information systems and management practices, which provide reasonable assurance that:*
  - *the assets of the entity are safeguarded;*
  - *the transactions comply with legislation, regulations, bylaws, and directives; and*
  - *financial, human, and physical resources are managed economically and efficiently, and operations are carried out effectively.*
- *Provision for internal audit where the size of the entity warrants it. This would provide information and procedural bases for accountability mechanisms and would make auditing easier because quality standards must be established by management which can serve as audit criteria.*
- *Establishment of the external auditor's responsibilities, and of the external audit regime, be they internal or external.*
- *Definitions of the limits of value for money audits. The examiner, reviewer or auditor should be prevented from expressing any opinion on the merits of the legislated objects of the organization.*
- *Establishment of the duties and responsibilities of the audit committee of a board. In fact, an audit committee should be mandatory where applicable.*
- *Requirement for an annual report by the board containing financial statements, the auditor's report on it, whether corporate objectives were met, quantitative information, performance information relative to the objectives, and anything else required by legislation or by the minister responsible for the particular activity.*



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## ACTION IS UNDER WAY

### FIRST STEP

We proposed a four-step action plan to establish such an accountability framework, and the first step has been taken. On June 17, 1993, the Standing Committee on Public Accounts unanimously passed the following motion:

*That the Standing Committee on Public Accounts give approval in principle to the Provincial Auditor pursuing the establishment of a workable legislated accountability framework by central agencies to be established before any amendments are made to the Audit Act.*

The Chair of the Committee advised the Chair of Management Board of Cabinet and the Minister of Finance of this resolution on June 28, 1993.

### SECOND STEP

The second step of the action plan is to work with the central agencies to develop an effective and practical legislated accountability framework, especially for transfer payments to ensure that they are spent for the intended purpose in a cost-effective manner. In this regard, a very good and sound step has already been taken by the Secretariat of the Management Board in spelling out new mandatory requirements for an accountability framework. They can form a very good basis from which to go forward and develop such an accountability framework. It establishes a memorandum of understanding. It deals with corporate plans. It deals with auditing arrangements, external audit and rotation of the private sector auditors, if that is required. It also deals with internal audits, staffing, salary levels, and sunset reviews, among other issues. Clearly, work has already been done, and it is good work.

We also note that a controllership function was established in the Ministry of Finance in November 1992. However, the legislated framework for the role and responsibilities of that function has not been established; such a legislated framework would be required to make the important controllership function effective.

Since June, the Provincial Auditor and his representatives have been meeting with the Deputy Minister of Finance, the Associate Deputy Minister of Finance, the Secretary of Cabinet, the Secretary of Management Board, and the Secretary of Treasury Board and their representatives to pursue the establishment of a workable legislated accountability framework.

Discussions to date reveal that all of the above participants agree on the importance of ensuring that an effective accountability framework is in place and the need to look for ways to improve existing frameworks. Together we are working to find more appropriate mechanisms to achieve better accountability in a workable and practical way.

### THIRD STEP

The third step would be to work with the ministries individually to develop practical performance indicators and criteria for performance evaluation. How a ministry knows it is doing well is really the fundamental question, i.e., is program delivery cost effective, and are funds spent for the intended purpose?

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## FOURTH STEP

The fourth step is to work together with the internal audit function in the ministries to develop audit services which are results and value for money oriented, which ensure that controls are built into financial and operational systems, practices and procedures on a timely and practical basis, and which ensure that the ministries and the taxpayers, ultimately, get the biggest bang for the audit buck. Overall, audit services need to be more effectively designed to assist in ensuring that revenues and expenditures are properly managed and controlled.

The four-step action plan sets up a co-operative approach between the legislators, the management of the ministries, and the audit function to work together to establish a sound, workable and useful legislated accountability framework.

## DEVELOPMENTS IN OTHER JURISDICTIONS

It is particularly noteworthy that several other jurisdictions are pursuing various ways to improve accountability to the central government, the legislature, and the public being served.

In the United Kingdom, the Prime Minister presented a white paper to Parliament in July, 1991 entitled *The Citizens' Charter*. In the foreword to the paper, the Prime Minister stated:

*The Citizens' Charter is the most comprehensive programme ever to raise quality, increase choice, secure better value and extend accountability. We believe that it will set a pattern, not only for Britain, but for other countries of the world.*

In the United States, Bill S.20, the *Government Performance and Results Act* of 1992 was reviewed and reported on by the Committee on Governmental Affairs in September 1992. The purpose of this Act is "to improve the efficiency and effectiveness of federal programs by establishing a system to set goals for program performance and to measure results."

In Prince Edward Island, the *School Act* and *Health and Community Services Act* (both assented to on August 11, 1993) have included accountability provisions and defined the roles and responsibilities of those delivering the respective education and health services to provide a better accountability framework.

These developments, among others, will provide useful models and ways in developing a workable legislated accountability framework.

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## CHAPTER THREE



# Reports on Value for Money Audits

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# Crop Insurance Commission of Ontario

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3.01

The Crop Insurance Commission of Ontario provides insurance on 52 different crops to protect farmers against unavoidable losses caused by natural hazards such as adverse weather, insects, and plant disease. The provincial and the federal government share equally in the cost of subsidizing insurance premiums and paying administrative expenses. During the 1992/93 fiscal year, insurance payments to farmers amounted to approximately \$166 million.

In accordance with Section 12 of the *Crop Insurance Act*, we conduct an annual audit of the Commission's financial statements. We encountered significant problems and delays with respect to our audit for the 1991/92 fiscal year, and made a number of recommendations to improve internal controls and accounting procedures.

During this year's audit we noted that improvements had been made in several key areas such as the review and approval of journal entries, periodic verification of farmers' account balances, review of computer error reports, and implementation of improved computer security controls. However, there are still several critical areas in which accounting procedures must be strengthened.

## AUDIT OBSERVATIONS

### ADOPT CONSULTANTS' REPORT AS ACTION PLAN

Due largely to the problems and delays which were encountered with the finalization of the March 31, 1992 accounts, the Commission engaged a consulting firm to document systems and procedures relating to the premiums and claims transaction cycles and recommend possible improvements.

The consultants' final report, issued in May 1993, contained a number of useful recommendations addressing areas where improvements were required. Many of their concerns had also been identified by our Office both at the conclusion of our 1992 audit and this year.

The implementation of the consultants' recommendations would rectify most of the ongoing problems and expedite both the month-end and year-end accounts closing procedures. However, it is our understanding that little effort has yet been made to bring the various affected organizational units together to determine how to implement the recommendations in the most cost-effective manner.

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## RECOMMENDATION

The recent consultants' report would serve as an excellent action plan to address many of the accounting problems currently being encountered. We recommend that a senior member of the Commission's management team be made accountable for developing and implementing a co-ordinated strategy to prioritize and implement the consultant's recommendations over the next six months.

## MINISTRY RESPONSE

*Agree. We have implemented many of their recommendations to date. We plan to continue to implement those remaining recommendations that are supported by a valid business case or operational requirement.*

## TIMELY PAYMENT OF FARMERS' CLAIMS

Regulation 231 of the *Crop Insurance Act* stipulates that claim indemnities should be paid by the Commission within 60 days of receipt of the proof of loss form. The proof of loss form or yield report is completed by the agent after visiting the farmer to verify the actual production yields. The computer system then calculates the amount of the claim using the data from the yield report.

While we recognize that bad weather conditions contributed to an abnormally high number of claims in fiscal 1993, our review of 90 indemnity payments indicated that in 13 instances, payments were not made within the required 60-day period.

## RECOMMENDATION

We encourage the Commission to more actively monitor outstanding claims so that those unpaid after 45 days or so can be expedited to ensure compliance with the requirements of Regulation 231 made under the *Crop Insurance Act*.

## MINISTRY RESPONSE

*Crop claims exceeded \$165 million in 1992. Prior to 1992, the worst year in the 25-year history of Crop Insurance was 1982 where approximately \$80 million in claims were paid.*

*We agree that 13 of 90 claims sampled were late; however, for the 1994 crop claim year, we will investigate the feasibility and cost of creating an aging report that will allow us to monitor the payment of claims within the requirements of the Crop Insurance Act. This report would also enable us to monitor our internal client turnaround times as compared to established performance indicators.*

# Criminal Law

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## ONTARIO'S CRIMINAL JUSTICE SYSTEM

3.02

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Crown attorneys employed by the Ministry's Criminal Law Division are responsible for prosecuting crimes under the *Criminal Code of Canada* as well as provincial offences under the *Highway Traffic Act*, *Liquor Licence Act*, and municipal by-laws. Charges under the federal *Narcotics Control Act*, the *Food and Drug Act*, and other federal statutes, are not prosecuted by provincial Crown attorneys, but by the federal government. About 490 Crown and assistant Crown attorneys, who are lawyers, and almost 60 paralegal provincial offences prosecutors are employed in the Division's 52 offices and judicial districts. For the 1992/93 fiscal year, expenditures totalled about \$81 million.

The Ontario Courts of Justice are divided into two divisions: the Provincial Division and the General Division.

Less serious offences are normally tried in Provincial Division courts. These charges are tried without a jury in front of either a judge or, for provincial offences, a justice of the peace.

The more serious *Criminal Code* offences are usually tried in General Division courts with or without a jury, at the option of the accused. However, before any case can be heard by a federal judge in General Division, a preliminary hearing must be held in Provincial Division (unless the accused waives this right) to determine whether a full trial is warranted.

For 1991/92, Provincial Division courts disposed of approximately 545,000 *Criminal Code* and *Young Offender Act* charges while 27,000 *Criminal Code* charges were disposed of by General Division courts.

The number of individuals charged with *Criminal Code* offences has increased significantly in recent years. For example, *Criminal Code* and *Young Offender Act* charges received by Provincial Division courts have increased over 35 per cent from 400,000 in 1987/88 to 542,000 in 1991/92. The number of individuals charged with violent offences has increased at an even greater rate.

Other factors which have increased the demands placed on the justice system include the introduction of the *Charter of Rights and Freedoms*, changes to drinking and driving legislation, and policy changes with respect to the prosecution of domestic and sexual assault charges.

As a result, in the late 1980s the system experienced a rapid increase in the number of charges awaiting trial. In some districts trial dates were not available for up to 16 months. Often cases were not tried on their scheduled trial date and had to be rescheduled even further into the future.

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The situation reached a crisis in October 1990 with the decision of the Supreme Court of Canada in Askov. This decision under the *Charter of Rights and Freedoms* stated that the acceptable time to trial in the General Division was generally six to eight months, and at the time was interpreted to also apply to Provincial Division charges. A subsequent Supreme Court decision established a guideline of eight to ten months for Provincial Division charges.

At the time of the Askov decision, approximately 205,000 charges were pending in the province, of which 152,000, or 74 per cent, were over eight months old. As a result of the Askov decision, approximately 51,000 charges were stayed or withdrawn, mostly in the Provincial division.

Subsequent to the Askov decision, the government approved additional funding of \$26.5 million to address the backlog, permitting the addition of 27 Provincial Division judges and 78 legal staff.

As a result, there have been significant reductions in the number of outstanding charges over eight months old. For example, Ministry records indicate that as of March 31, 1992 there were approximately 172,000 outstanding charges, only 14 per cent of which were older than eight months. As of November, 1992, next available trial dates in Provincial Division generally varied from three to seven months. General Division trial dates ranged from between three to six months. Both time frames are acceptable from a legal perspective.

## OBJECTIVES AND SCOPE

Our audit objective was to assess whether established systems, policies, and procedures encourage timeliness, efficiency, and consistency in the prosecution of criminal cases.

The scope of our audit included reviewing and analyzing information available at Ministry offices, as well as discussions with representatives of the Ministry, police, the judiciary, and the defence bar. However, our audit did not include a review or assessment of individual case files. We also reviewed any relevant work by the Ministry's Audit Services Branch.

During the audit we visited and performed work in three regional offices and 7 of the 52 judicial districts which in total represent about half the volume of charges in the province.

## AUDIT OBSERVATIONS

### OVERALL OBSERVATIONS

Our audit was conducted during a period of restructuring. A number of significant initiatives were under way to improve the timeliness, efficiency, consistency, and overall fairness of the justice system. The more significant of these include: the Justice Review Project to make more effective use of the criminal justice system and strengthen partnerships in the justice system; the Martin Committee to study and advise the Ministry on case manage-



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ment and prosecution policies and procedures; and the Ministry's proposed Investment Strategy aimed at improving the overall efficiency and effectiveness of the justice system. These initiatives affect the administration of both criminal and civil justice.

Once implemented, the changes resulting from these initiatives should serve to address a number of our observations. Our recommendations complement these significant initiatives and, if acted upon, should result in further improvements to the systems, policies, and procedures involved in managing the prosecution of criminal cases. Although the focus of our recommendations is on the Criminal Law Division, we recognize that successful implementation will require the co-operation of all those involved in the administration of criminal justice in Ontario.

## 3.02

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### OVERALL MINISTRY RESPONSE

*The Division welcomed this detailed review of its business and operating practices. It was particularly opportune, coming at a time when the Division was already actively moving on a set of comprehensive restructuring plans designed to make the criminal justice system more effective and efficient. Specifically, these are the Investment Strategy, the Martin Committee, the new Crown Policy Manual, our Diversion Pilot Projects, and the Workload Measurement and Resourcing Model initiatives.*

*Although not normally discussed in such terms, the Division's initiatives represent a holistic approach to improving the efficiency and effectiveness of the justice system. This is in recognition of the fact that the fiscal and social realities of the 1990s require new approaches to the justice system, to effectively manage the volume of cases in the courts over the next decade.*

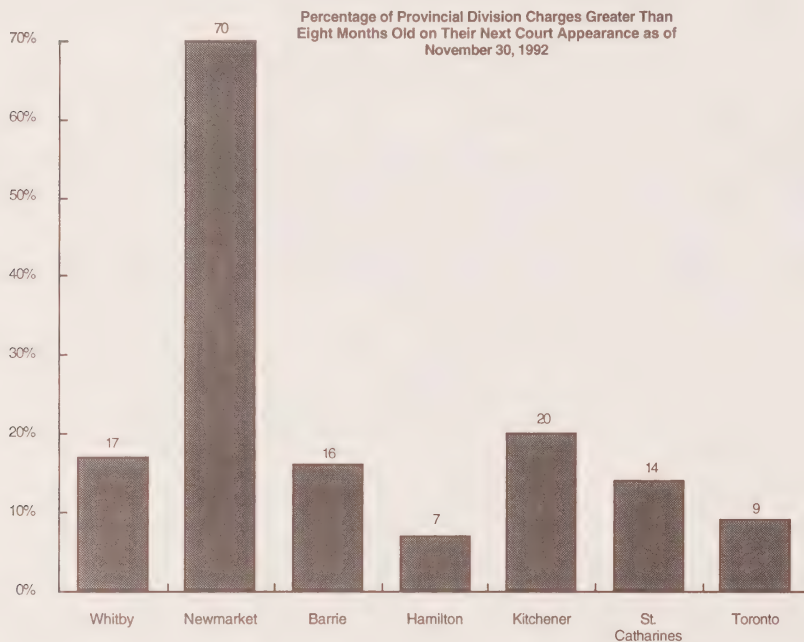
*The Askov situation necessitated the infusion of additional funding to manage particular circumstances. However, it has been recognized that simply spending more money is not an effective long term solution to an ever increasing court workload. This recognition resulted in the Justice Review Project which proposed a strategic plan for reforming Ontario's Criminal Justice System, the Martin Committee, the Investment Strategy, the Crown Policy Manual, the Diversion Pilot Projects and the Workload Indicators, and Resource Model initiatives, all of which were at various stages of development at the time of the audit.*

*In a concrete way they address two specific objectives outlined under the umbrella policy framework of the Justice Review Project: more effective use of the Criminal Justice System and strengthening partnerships in the justice system. They can also be characterized as truly holistic in that, in order to achieve their stated objectives, each will require the co-operation and active participation of various other "players", namely, the Judiciary, Crown Counsel, Defence Counsel, and the Police. Inter- and intra-ministry co-operation at senior management levels in the Ministry of the Solicitor General and Correctional Services and Ministry of the Attorney General is also a pre-requisite for success.*

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## CASE MANAGEMENT

As of November 30, 1992, approximately 20 per cent of all outstanding criminal charges in Provincial Division would have been over eight months old on their next court appearance. In the worst eight districts, between 27 and 70 per cent of all charges exceeded that threshold. Of the seven district offices we visited, Newmarket had the most severe backlog as the following chart indicates.



*Source: Integrated Court Offences Network (ICON) information system for Provincial Division activities.*

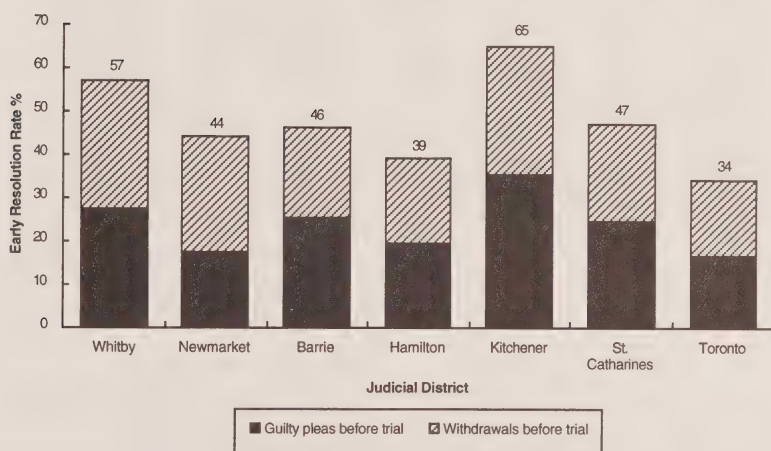
Although it is not feasible to determine what proportion of these charges are at risk of being lost, it nevertheless represents a deterioration of the situation from March 31, 1992, and points to the risk of another Askov-type situation developing.

Crown attorneys cannot by themselves control the time to trial. Local differences will arise from such factors as the proportion of more serious cases requiring trials, police charging practices, and the actions of the local defence bar and judges, including courtroom management and use. However, differences in time to trial and the efficiency and effectiveness with which cases are resolved can be significantly affected by case management practices.

The law permits Crown attorneys to exercise considerable discretion in deciding whether or not and how to prosecute a charge. To be cost effective, Crown attorneys should only prosecute those charges where there is a reasonable prospect of conviction and where prosecution is judged to be in the public interest. Some Crown attorneys argue that cost should not be a factor in such decisions. However, an equally valid argument could be made that given the constraints placed on the system, the Crown should weigh the likelihood of success and the likely penalty against the cost of the prosecution and other competing demands and should consider whether suitable and less costly alternatives to prosecution exist.

That is why most districts visited attempted to reduce backlogs and the costs of prosecuting cases by employing practices which resolve cases before they go to trial, or at least reduce the time required for trial. This can be done in a variety of ways, yet as the following chart indicates, the ability to resolve cases early varied considerably among the districts visited.

**Provincial Division - Overall Rates of Resolution Without Trial Over a Six-Month Period in 1992**



*Source: ICON. Reliable data for General Division activities not available.*

While recognizing that these judgments must be made on the merits of each case, management must have systems and procedures in place which, to the extent possible, promote consistency and ensure that decisions are not subject to improper influences.

However, such systems and procedures were weak and inconsistent at best. For example, the Ministry had only very recently established quantitative performance standards or expectations for such things as resolutions without trial and the proportion of charges proceeding to trial. Also not tracked was whether differences in prosecution procedures had an impact on the nature and frequency of withdrawals and acquittals or on conviction

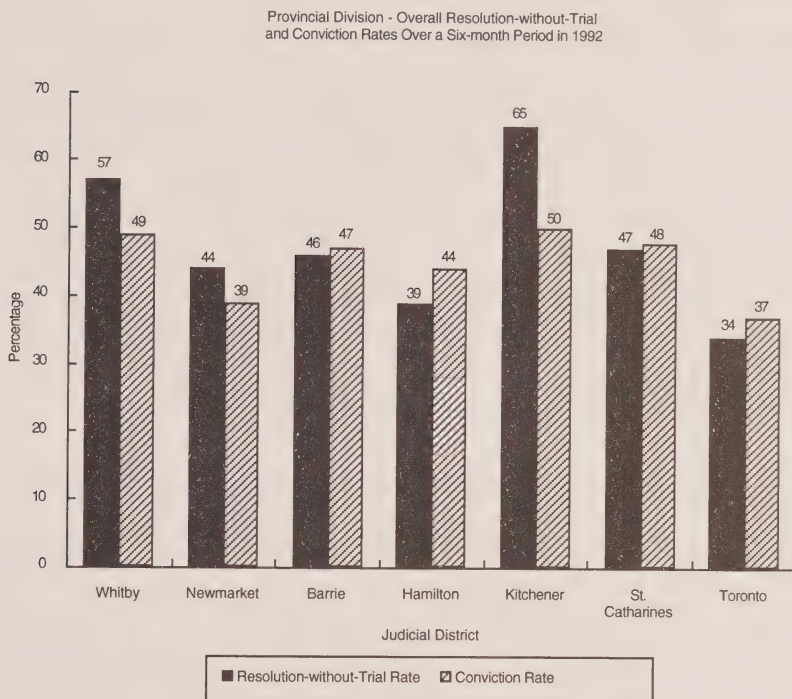
rates and sentences overall. Instead, we found a systemic emphasis on prosecutorial discretion and that regional directors and Crown attorneys monitored prosecutions by more subjective means such as informal feedback and personal knowledge about the individuals involved.

As a result, we found significant differences in case management practices in the jurisdictions visited. These differences are described in the following chart.

<b>Case Management Practice and Objective</b>	<b>Observations in Districts We Visited</b>
Post-charge screening to ensure that charges laid are provable and in the public interest to prosecute. Withdrawing weaker charges early saves time and witness fees, and makes court scheduling for more certain matters more predictable.	Practices varied considerably. While police charging practices also influence the proportion of charges withdrawn before trial, some Crown attorney offices screened charges much more than others. As a result, charges withdrawn before trial varied from 30 per cent to just 18 per cent.
Pre-trials with defence counsel and the accused to assess evidence, the strength of each other's case, the need for witnesses, and to clarify issues and points of law. This can either avoid or reduce trial times and costs.	Some districts were more formal than others. Some districts held pre-trials in front of a provincial judge, while others involved only a prosecutor and defence counsel. Inconsistencies exist even within districts. In general, however, those districts with formalized early disclosure and pre-trial procedures were much more effective at resolving cases without a trial.
Plea discussions. Where the Crown has a strong case, plea discussions may encourage the accused to plead guilty before the day of trial. Guilty pleas on the day of trial are costly in terms of unnecessary witness fees, police overtime costs and, where applicable, legal aid fees. Court administrators must significantly overbook trial times to ensure that court time is not wasted.	Again, this practice varied considerably. One district engaged in very few plea discussions, while others had procedures and guidelines that encouraged reduced sentences in exchange for an early guilty plea. Those districts with formal procedures had between 27 and 35 per cent of charges disposed of by guilty pleas before trial, while those without had well under 20 per cent.
Alternative measures programs to divert less serious charges away from the formal court process.	Most districts had such programs for young offenders, and some had pilot projects for adults, but the variance in practice here introduces another element of inconsistency in how similar cases may be treated by the courts.



Even more significantly, we noted that the two districts which were most successful in resolving cases early (65 per cent and 57 per cent of all charges) also achieved higher overall conviction rates, as can be seen from the following chart:



Source: ICON. Reliable data for General Division activities not available

(Conviction rates are based on charges. The proportion of cases resulting in a conviction varied from 48 per cent to 62 per cent, counting a conviction on one or more charges as a case conviction.)

In addition to the lack of monitoring and standards, we observed two primary reasons which account for the differences in case management practices and results:

- there were no sufficiently detailed and up-to-date policy directives and guidelines to provide a reasonable balance between prosecutorial discretion and consistent administration of criminal justice. However, revised policies had been drafted for approval by the completion of our audit; and
- perhaps most importantly, several districts had not co-ordinated all individuals involved in the criminal justice process to establish efficient and effective case management procedures.

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Timely and efficient administration of justice requires the co-operation and co-ordination of not only the Crown, but also of the Courts Administration Division, the police, the judiciary and the defence bar. In fact, leadership and co-ordination of these parties' efforts by a local senior judge was the main reason why two of the seven districts we visited had significantly improved their case management procedures and significantly reduced case backlogs and delays.

## MANAGING PROVINCIAL OFFENCES

Reports on the activities of provincial prosecutors and the results for provincial offence charges under the *Highway Traffic Act* and *Liquor Licensing Act* are not distributed to regional and district offices. Consequently, management does not monitor the reasons for dismissals or significant variances in results achieved among districts.

With respect to provincial offences charges, we found that 49 per cent of charges in Metropolitan Toronto and 73 per cent in the rest of the province were disposed of without court proceedings, primarily through out-of-court guilty pleas. However, of the charges proceeding to trial, only 38 per cent resulted in convictions in Metropolitan Toronto compared to 66 per cent for the rest of the province.

We understand the Ministry is proposing a number of changes to the administration of provincial offences courts as part of its Investment Strategy.

## RECOMMENDATIONS

To improve timeliness, efficiency, and consistency in the prosecution of charges the Ministry should:

- complete efforts to provide all Crown attorneys with more detailed policy directives and guidelines which include best practices for case management;
- in co-operation with judges, take steps to encourage co-ordination and best case management practices at the district level;
- monitor the rates of resolution-without-trial, withdrawal on the date of trial, trial frequency, and overall conviction in each district and obtain explanations for significant variances from expected norms or targets; and
- include the results of provincial offences activities in monthly reports to regions and districts. The reasons for aberrations in conviction rates should be investigated to identify causes and facilitate corrective action.

## MINISTRY RESPONSE

### Policy Directives and Guidelines

*A committee was struck and charged with the responsibility of reviewing directives and guidelines and making attendant recommendations for change. Specific new directives have been prepared for the screening of charges, resolution discussions, and disclosure.*

*Monitoring compliance against best practices poses no real management problems, assuming that local variations to best practice, caused by uncontrollable factors (see below), are included in the monitoring process.*

It should not be assumed that standardized practices will apply in each and every jurisdiction. This does not take into account such elements as local judicial practice, aggressiveness of the local bar, police charging practices, i.e. the "uncontrollable factors". This is certainly a "theme" of the Martin report which maintains that Crown discretion should in fact be maintained. The Division does, however, accept that such discretion is best exercised within the context of a more structured framework of improved guidelines and directives.

### **Co-ordination and Co-operation at the District Level**

Co-ordination initiatives in fact materialized during the Askov crisis (Delay Reduction Committees) and have continued to some degree in certain jurisdictions.

It should be noted that the two Divisions (Courts Administration and Criminal Law Division) have in place a letter of agreement to work co-operatively on technology related "common-interest projects" such as efficient use of information technology available at common physical facilities e.g. E-mail; and Crowns' accessibility to the Integrated Court Offences Network (ICON). Fiscal constraints, however, do affect the economical use of common technology resources in locations where offices are physically separate. Development of "common-interest" technology projects such as the Courts Statistical Database for the Ministry commenced in early 1993 and planned projects like Criminal Case Management System for General Division will further augment the co-operative approach among the Judiciary, Criminal Law Division, and Courts Administration Division to ensure efficient and effective use of common technology resources.

### **Monitoring Case Management Practices and Reporting Results**

The Ministry is awaiting a report by the Corporate Information Technology Committee (CITC) whose mandate is to provide an integrated approach to technology development in the Ministry and to standardize and prioritize case management systems. In the interim, however, both the CITC and the Ministry's Senior Management Committee have given approval for the development of case-management systems in areas where there are pressing operational needs. Approval has been given for the development of a case-management system at the family court at 311 Jarvis Street and for criminal case management for the General Division.

The Divisional Planning and Administration Branch IT personnel are currently utilizing an interim "in-house" case management system at the local level.

The Ministry currently produces reports that provide Criminal Law Division with the tools to carry out their monitoring responsibilities for the rates of early resolution, withdrawal on the date of trial, trial frequency and overall convictions for both criminal and provincial offences in the Provincial Division.

The Division currently monitors such numbers, but not based on expected norms or targets. An exception to this is the Askov eight-month guideline (time-to-trial target date).

Reports planned for the Investment Strategy set targets. These reports will allow the Ministry to monitor the progress of the Investment Strategy initiatives in a proactive and responsive manner. The targets will be included in the Regional Directors' performance contracts.

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*ICON (an operational system) in the Provincial Division facilitates production of Case Management reports for monitoring purposes. In order to provide similar reporting for criminal matters in the General Division, the Ministry has plans to develop an operational criminal case management system. The development of this system requires co-ordination with the judiciary, the Ministry of the Solicitor General and Correctional Services and the Integrated Safety Project, which is a multi-ministry initiative.*

## **RESOURCE MANAGEMENT**

Timely and efficient administration of justice also depends on efficient use of resources, including courtrooms, judges, lawyers, support staff, and information systems.

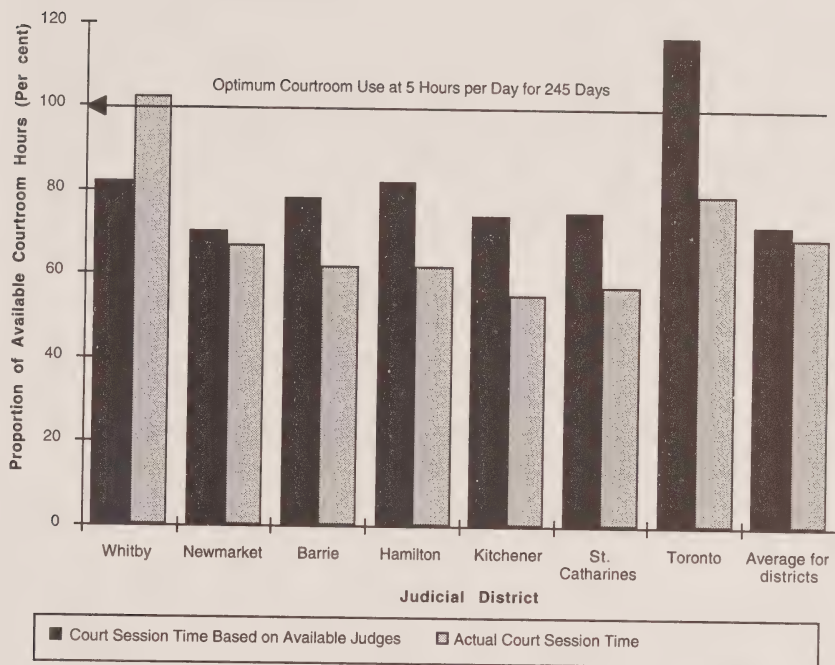
### **COURTROOMS AND JUDGES**

Despite the prolonged waiting periods for trials in some districts, actual court hours were often less than what could reasonably be expected given the number of provincial courtrooms and judges in a particular district.

The following chart analyzes courtroom and judge utilization in the districts visited by comparing actual court hours to available court hours in Provincial Division for a one-year period. For the purposes of this analysis, "optimum courtroom use" assumes five hours per day for 245 days. Although there were no official standards for judge sitting hours, and judges perform several duties outside the courtroom, we calculated expected court session time based on available judges, assuming that it is not unreasonable to expect judges to sit on average five hours per day for 170 days. In applying this benchmark, it is significant to note that, in Whitby, actual court session hours exceeded the expected hours because the local senior judge expected judges to be in court 196 days per year.



Provincial Division Courtroom Utilization over  
One-Year Period Ending June 30, 1992



Source: ICON. Reliable data for General Division activities not available.

One observation is that despite backlogs in Provincial Division courts, most districts were operating well below their practical capacity given available courtrooms and judges. This underutilization results from a combination of two factors:

- there was more courtroom capacity than there were available judges, as available judge sitting hours were, on average, only 72 per cent of available courtroom hours; and
- judges actually sat on average only 69 per cent of the time courtrooms were available, or 3 per cent less than the expected sitting hours.

We also noted that, despite an average trial length of about two hours in Provincial Division, the districts we visited were able to dispose of only between 0.6 and 1.5 charges at trial per trial court day. One reason this rate of disposition was lower than would be expected given average trial length is because trial courts must also deal with the many charges that are disposed of on the day of trial through late withdrawals or guilty pleas and such activities as preliminary hearings for matters proceeding to General Division.

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## RECOMMENDATION

For more timely disposition of cases, the Ministry, in co-operation with judges should make every effort to more fully utilize available courtroom and judicial resources, and closely monitor the number of charges disposed of per court day in all districts.

## MINISTRY RESPONSE

*This data is available but it is not currently produced on a regular basis.*

*Courts Administration has taken the initiative to provide Provincial Division courtroom utilization and charge disposition data from a uniform system (ICON). Reports on courtroom utilization are being provided to Criminal Law Division and the Chief Judge's Office. Due to the implementation of this enhanced data collection method, Courts Administration is able to invite active participation by Criminal Law Division and the Provincial Judiciary to produce additional reports.*

*In fact, The Chief Judge of the Ontario Court (Provincial Division) has assumed responsibility for the monitoring of judicial sitting time and disposition rates.*

*As part of the Investment Strategy monitoring system, the measurement of this particular type of disposition is a prime focus. With respect to the utilization of courtroom and judge resources, issues related to effective management become more complicated due to the concept of judicial independence in the administration of justice.*

*It is true that trend analysis indicates that the use of courtroom facilities and judges sitting hours have increased. The consultative process involved in promoting the concepts of the Investment Strategy has also raised the awareness of all the participants in the judicial process to make better use of all resources. Close monitoring of the results of the Investment Strategy will produce a tangible and continued improvement in this area.*

*Although the Social Contract Act does not apply to the judiciary, provincial judges have offered to collectively make available up to 3,000 extra sitting days per year in order to facilitate the implementation of the Investment Strategy and to assist the province in its goal to reduce public expenditures.*

## INFORMATION SYSTEMS

Effective case and resource management requires specialized information systems in order to monitor the progress of individual cases and regularly provide relevant and accurate information about the efficiency and effectiveness of Crown attorney offices over time. Information provided should then be reviewed to identify and promote best practices and generally obtain explanations for results that significantly deviate from established standards or expected norms.

The Ministry has two computerized information systems which are maintained by the Ministry's Courts Administration Division. While these systems adequately serve the Courts Administration function, they both suffer from significant deficiencies which limit their usefulness as management tools for the Criminal Law Division. They do not provide management with sufficient, relevant, and meaningful information to adequately monitor

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and evaluate the criminal prosecution function. This lack of meaningful information has limited the effectiveness of regional offices in monitoring prosecution services.

We had several concerns with existing systems.

- the Ministry's information system for Provincial Division courts (Integrated Court Offences Network or ICON) provided information on a "charge" basis only rather than by case or person. However, charges are not the best indicator of workload or results because most cases involve multiple charges and not all charges are proceeded with;
- most monthly activity reports did not provide cumulative or comparative data which severely limited their value as management tools;
- the system which tracked activities in the General Division courts (Court Input Statistic System or CISS) was based on manually maintained records which were often inaccurate or incomplete. We also noted that data published in the Ministry's 1991/92 *Court Statistics Annual Report* showed unrealistic year-to-year variances and absolute numbers which are known to be in error.
- monthly activity reports did not include General Division activities, so performance reporting was incomplete. Therefore, neither management nor we could perform reliable analyses of the efficiency or effectiveness of provincial prosecution activities in the General Division; and
- given the similarity in the type of information needed to monitor both Provincial and General Division court activities, we questioned the need for separate information systems. It would be much more efficient and economical to have only one system to report on activities in both divisions.

## RECOMMENDATION

To ensure effective case and resource management, the Ministry's information systems for the General and Provincial Divisions should be made compatible, and should be enhanced to provide meaningful data on individual cases or defendants, as well as comparative data on a district and regional basis.

## MINISTRY RESPONSE

*Plans are being developed to provide operational systems for General Division criminal case management.*

*The compatibility between current and any proposed systems being developed by the Ministry is a critical component of success and will be ensured.*

*The Integrated Court Offences Network is a charge-based system. Definition of a "case" is required which is accepted by the judiciary and the Ministry before case-based reports can be made available.*

*The Ministry does produce and distribute some cumulative and comparative data reports based on charges. Any future development of case management systems will have a module to track cumulative and comparative data.*



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## WORKLOAD STANDARDS AND TIME MONITORING

Despite the discretion given to local Crown attorneys and individual staff members, there was a lack of formal performance standards and related monitoring of results achieved. For example, actual in-court time for assistant Crown attorneys ranged from 407 to 576 hours per year in districts visited. The number of charges received per prosecutor also varied widely, from a low of about 200 to a high of over 3,500 and averaged over 950 provincially.

However, in the absence of standards for case loads and an informative and practical time accounting system, it was not possible to determine whether time was well managed, or whether resources were fairly allocated among districts and regions.

### RECOMMENDATION

Professional time should be accounted for practically and reliably, and a caseload allocation model should be developed to help set reasonable standards and ensure that resources are managed effectively.

### MINISTRY RESPONSE

*The Division's Workload Indicators project has the mandate to determine appropriate workload standards and to develop attendant resourcing models for the Division. The project is managed through the auspices of an Advisory Board which held its inaugural meeting in early August 1993, and a Working Committee which will be convened in the Fall of 1993. The Committee will utilize a facilitation approach based on the Ministry's Strategic Planning model.*

*Whether resourcing will be based on a caseload allocation approach is not yet decided. The recommendation will be reviewed by the Working Committee.*

*In addition, the Division is committed to a zero-based budget approach to resource management and this initiative will be implemented following acceptance of the recommended Workload Indicators and Resource Model(s).*

*If the Division were to embark on a time accounting system the very real costs involved in such an exercise would perhaps preclude its implementation. The recent docketing exercise run in the Division (February-April 1993) should not serve as a model for time accounting. Its prime purpose was to generate baseline, detailed, current information on how the Division's Crown Attorneys spend their time. It is not recommended as an ongoing time accounting system.*

*The Division's current one-half day time accounting system together with supplementary information is adequate for most management purposes information. Requirements for more detailed information could be provided through such information gathering techniques as activity sampling or further (limited) docketing exercises. If the Workload Working Committee recommends adoption of a limited case type method of workload measurement, then time accounting is considerably simplified. Time accounting would be based on the collection of data on a limited number of case types and, in fact such information may be available through the Courts Administration Management Information Systems portfolio.*



# Ontario Legal Aid Plan

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3.03

The Ontario Legal Aid Plan was established in 1967 to help Ontarians receive legal representation or advice when they are not able to pay for some or all of it themselves. The Plan is operated by the Law Society of Upper Canada. The Plan's mandate includes facilitating access to services for all eligible persons, ensuring service delivery in a consistent manner throughout the province, and providing a fair process for determining eligibility. The Plan is administered through 51 field offices and is supported by a head office which pays legal claims and monitors lawyers' billings. Applications for legal aid are received, evaluated, and approved by the field offices. Applicants receive certificates enabling them to choose eligible lawyers. The Plan compensates lawyers based on established rates or tariffs for work performed. In 1992, over 5,000 lawyers in private practice provided legal aid services.

Eligibility for assistance is dependent on an individual's financial circumstances and the nature of the legal help required. Legal aid covers all legal work for most criminal certificates (109,000 in 1992) and many civil certificates (103,000 in 1992), such as those involving family law and immigration. Clients' financial eligibility is assessed by Ministry of Community and Social Services staff in about 60 per cent of the legal aid field offices; in the remainder eligibility is checked by Legal Aid staff.

The Plan received about 250,000 applications for legal aid in 1992, which represents an increase of almost 100 per cent over the past four years.

The Plan's expenditures for the fiscal year ended March 31, 1992 were \$268 million of which legal fees amounted to \$207 million, funding for clinics was \$30 million, and the balance was spent for various other costs including administrative ones. The federal government contributes to the Legal Aid Plan although its share of contributions has fallen from 33 per cent in 1990 to 26 per cent in 1992. The federal contribution for the fiscal 1992 year was \$70.3 million. As well, the Law Foundation of Ontario contributed \$17 million, of which \$8.5 million represented a one-time, extraordinary grant from their reserve fund.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess the adequacy of:

- procedures to ensure that legal aid certificates are issued to eligible applicants on a timely basis; and
- monitoring procedures over lawyers' billing practices.

Our audit included visits to four Ontario Legal Aid Plan area offices and a questionnaire/survey of Legal Aid Plan Area Directors and Financial Assessment Officers. Our audit also

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included interviews with representatives of the Canadian Bar Association, judges, and Crown attorneys and discussions with representatives of legal aid client groups.

Our audit did not include an assessment of financial and accounting controls over the authorization and payment of legal fees and disbursements to lawyers, because these are reviewed as part of the annual attest audit work.

## AUDIT OBSERVATIONS

### TIMELINESS OF APPROVAL PROCESS

In about two-thirds of the 51 area offices, clients must go to a Ministry of Community and Social Services office to have financial eligibility determined and to a Plan office to have legal eligibility determined. For the remainder, both functions are handled by Legal Aid staff. Determining financial eligibility involves assessing an applicant's income, assets, and living expenses to determine the financial need for legal aid. Determining legal eligibility involves assessing the nature of the legal work required.

The length of time required to process an application has two components: the time it takes to make a decision about applicant eligibility and the time it takes to issue a certificate entitling the client to legal aid services.

Area directors surveyed and in the offices we visited believed that estimated turnaround time to approve or reject the application should be about one week for "certificate free" applications and about two weeks for those in which the applicant contributes to the cost.

Our review revealed that most offices did not meet the turnaround time. For instance, for applicants who must contribute to the cost of their legal aid services, the offices took, on average, 37 days.

We investigated reasons for variations in certificate turnaround time among offices and found that there were wide variations between one-office locations and two-office locations.

In two-office locations, clients' financial eligibility is determined by the Ministry of Community and Social Services, and legal eligibility is determined by the Plan. In one-office locations both functions are handled by Legal Aid staff.

Two-office locations had longer waiting times than one-office locations because of the complexity of dealing with the administrative practices of two organizations.

The short turnaround time is important because vulnerable and disadvantaged applicants require their legal needs to be met as soon as possible. For instance, we held discussions with representatives from several emergency women's shelters. Their main concern was the waiting time involved in obtaining legal aid certificates. Most women seeking aid were involved in abuse and/or child custody cases while temporarily seeking refuge in a shelter.

A pilot project to streamline procedures was implemented recently in two area offices. In these offices, applicants earning less than a predetermined income level by-pass an inter-

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view and assessment of living expenses. The pilot project also streamlines the determination of legal eligibility for simple cases such as those involving divorces. Intake staff are therefore able to make immediate decisions about eligibility for legal aid.

We visited one area office which had implemented these streamlined administrative procedures and found that the average time required to recommend eligibility for legal aid was reduced from ten days to one or two days.

### RECOMMENDATION

The Plan should consider extending the results of the pilot project to other area offices in an effort to streamline administrative practices province-wide to improve certificate processing time and reduce administrative costs.

### MANAGEMENT RESPONSE

*We agree that control of the financial assessment function will improve the delivery of service and result in more timely processing of applications. The Legal Aid Plan, the Ministry of the Attorney General and the Ministry of Community and Social Services have been investigating divestment of the provincial assessment function from the Ministry of Community and Social Services to the Legal Aid Plan for the past three years.*

*Two years ago, a new financial assessment eligibility test was developed and implemented in two pilot project areas, and in July 1993 was extended to the 21 area offices where Legal Aid is performing the financial assessment function. It is expected that the financial assessment function will be transferred from the Ministry of Community and Social Services to the Ontario Legal Aid Plan by the end of the current fiscal year.*

## ADEQUACY OF VERIFICATION OF ASSETS AND INCOME

Assessment officers are required by the *Legal Aid Act* to consider income, disposable capital, indebtedness, and requirements of persons dependent on the applicant to determine an applicant's financial eligibility. All applicants are required to disclose this information and to sign a consent form allowing the Ministry of Community and Social Services (MCSS) to verify assets and income with a bank or other sources.

Legal Aid relies on the verification that is done by MCSS which is responsible for the financial assessment function. Legal aid staff ensure compliance with the verification procedures for the legal aid offices where they have been contracted to provide the financial assessments for the Ministry of Community and Social Services.

Eligibility is determined in accordance with Ministry of Community and Social Services standards. These standards call for a variety of basic information to be provided when applying for eligibility including pay slips, if appropriate, or up-to-date bank books.

Persons with total liquid assets over \$1,000 in value must contribute to legal aid in accordance with a published scale; those with less do not contribute. Over 50 per cent of all legal



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aid clients are receiving social assistance, and they are more likely to be deemed eligible for legal aid. The remainder of legal aid applicants must have their assets and income more closely assessed.

Assessment officers verify eligibility through procedures such as:

- contacting banks or other sources;
- verifying rental agreements, self-employment records;
- verifying that the applicant is in receipt of social assistance; and
- ensuring the value of assets held by the applicant are less than \$1,000.

Our review of verification procedures revealed the following:

- A total of 130 case files were sampled in our visits to four area offices. Approximately 30 per cent of these files represented high-risk applicants, in that evidence on file suggested that they may have been able to contribute to the Plan. We found that in over 35 per cent of these high risk applicants, verification procedures were inadequate as either instant teller slips were used to verify bank balances, or little or no evidence of verification of assets were found on file. The files in question were presented to field office officials for further follow up by them.

The remainder of the files represented lower risk applicants including those with lower incomes, incarcerated or receiving social assistance. Overall, in this sample there was little evidence that assets of these clients had been sufficiently verified.

- While internal procedures require a bank book or statement to be provided as adequate proof of cash balances, a majority of area offices surveyed indicated that they accept automatic teller machine slips as proof of bank account balances. Other offices that do not accept bank slips explain that applicants could simply withdraw savings before applying for legal aid. In one case, Legal Aid staff noted that the client withdrew significant amounts of money just a few days before submitting the application.
- Procedures to verify other information on the applications were satisfactory.

Inadequate verification of the financial eligibility of applicants leaves the Plan vulnerable to ineligible persons obtaining legal aid. For instance, applicants were recently found by Legal Aid to have had assets which were not disclosed on their applications. These cases resulted in criminal convictions and/or cancellation of their legal aid certificates. Most of these cases were discovered through complaints by third parties. Through a bank check by Legal Aid, one client was discovered to have in excess of \$100,000 in undisclosed liquid assets.

We also noted wide variations in approval rates in the 51 field offices across the province. For instance, for the 1991/92 fiscal year, approval rates varied from a high of 98 per cent to a low of 59 per cent.



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## RECOMMENDATION

Stricter compliance with procedures should be enforced to ensure adequate verification of eligibility, especially in verifying assets and income with banks and other sources. This enforcement should improve the quality and consistency of eligibility assessments.

## MANAGEMENT RESPONSE

*The Plan agrees in principle with the implementation of more strict and improved verification of income and asset guidelines. However, strict compliance with procedures may have cost implications to the Plan in terms of requiring additional staff to be hired.*

# 3.03

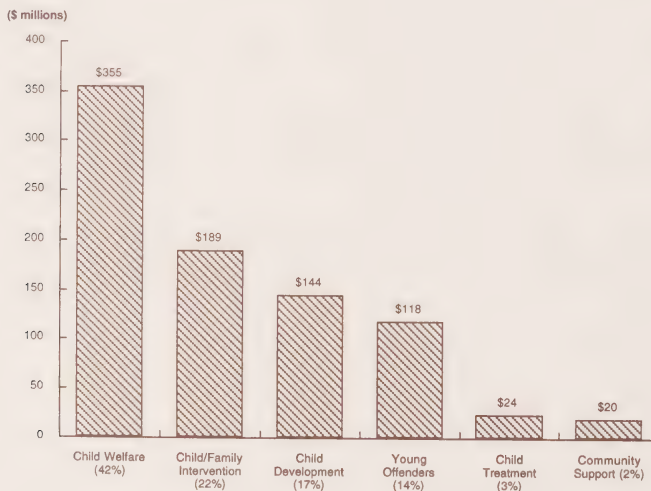
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# Child and Family Intervention Program

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The Ministry of Community and Social Services funds approximately 200 non-profit agencies under its Child and Family Intervention (CFI) program. These agencies provide services designed to alleviate a range of social, emotional and/or behavioural problems experienced by children and their families such as family breakdown, physical or sexual abuse, drug abuse, attempted suicide, and depression. Services provided include therapy, counselling, skills training, and education as well as residential services to children who require more intensive assistance.

Funding for various children's services is provided by the Ministry under the authority of the *Child and Family Services Act* and Regulations. The Act came into force in 1985 and consolidated several former pieces of legislation, each of which covered a particular area of children's services. The CFI program is the second largest children's program funded under the legislation. For the 1992/93 fiscal year, the Ministry's total funding for children's services was approximately \$850 million, of which \$189 million was for the CFI program:



Source: Ministry of Community and Social Services

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Approximately \$70 million of the \$189 million CFI funding was expended for residential services where children are given overnight care. The remainder was spent on day treatment or outreach care.

Residential services are provided by 90 of the 200 agencies funded by the CFI program. As of March 31, 1993 the program had an active caseload of 40,000 children, with residential services being provided to 1,750 of these children.

In March 1993, the Ministry completed a *Policy Framework for Services Funded Under the Child and Family Services Act*. This framework addresses many of the issues noted in a 1988 policy paper (*Investing in Children*) and a 1990 advisory report, *Children First*, and is now in the process of being implemented by the Ministry.

## 3.04

### OBJECTIVES AND SCOPE

Our audit objectives were to assess the Ministry's procedures for monitoring the operations of Child and Family Intervention agencies to ensure:

- compliance with the *Child and Family Services Act* and Regulations, and Ministry guidelines; and
- the provision of adequate and cost-effective services to children and their families.

Our audit included discussions with Ministry officials, a review of any relevant work by the Ministry's Comprehensive Audit and Review Branch, and visits to four local offices. During the 1992/93 fiscal year, these offices monitored approximately 70 agencies which received a total of \$68 million in CFI funding from the Ministry.

## AUDIT OBSERVATIONS

### COMPLIANCE WITH LEGISLATION AND MINISTRY GUIDELINES

#### PROGRAM DEFINITION

The paramount objective of the *Child and Family Services Act* is to promote the best interests, protection, and well-being of children. To meet this objective, the legislation defines the services to be provided, including Child and Family Intervention Services. However, the Ministry has not, in our opinion, clearly defined the CFI program costs.

We reviewed 41 CFI agencies and noted that funds were spent on children who were, or could more appropriately have been, funded under other children's programs. For example, over 20 per cent of CFI children in residential care were under the supervision of Children's Aid Societies. These societies are funded separately under the Child Welfare program.

As a result, we estimated that \$15 million of CFI funding was used to serve children who were the responsibility of Children's Aid Societies. To report these children under the CFI program understates the true cost of Child Welfare services. In order to properly plan for

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and make informed decisions on children's programs, it is necessary to have an accurate accounting of the costs of each program.

## **DEMAND FOR SERVICE**

The Ministry provides Child and Family Intervention services based on the availability of funds, facilities, and programs. The demand for services exceeds the services available, and many agencies have extensive waiting lists.

The Ministry does not collect, consolidate, or monitor waiting list information, and agencies are not required to report this data. However, data maintained by 20 of the agencies we tested indicated that approximately 1,500 children were on their waiting lists.

In an attempt to address limited funding concerns, provide service to more children, and reduce waiting lists, the Ministry and several agencies have begun to focus on less expensive out-patient services as opposed to residential placements, in addition to other measures.

There is also no general prioritization to determine which children are most in need. One of the major goals of the Ministry's *Policy Framework* is to target resources to the most needy children and children who can benefit most from prevention of problems and early intervention.

## **RECOMMENDATION**

The Ministry should clarify the definition of the Child and Family Intervention program to ensure the proper accounting of program costs. This will assist the Ministry in long-term planning and decision making.

## **MINISTRY RESPONSE**

*The Child and Family Intervention program was intended to serve children who are receiving service from the child welfare and/or young offender, and/or child development sectors of the children's services system. Whenever possible, Children's Aid Societies are encouraged to use Child and Family Intervention resources for children in their care in order to ensure that children receive appropriate services and that the Ministry does not incur additional costs for the residential care of these children.*

*The Ministry will provide clarity by exploring alternatives to ensure proper accounting of Child and Family Intervention program costs.*

## **SERIOUS OCCURRENCES**

The *Child and Family Services Act* requires all incidents such as physical injury, assault, or abuse of children to be reported to the Ministry within 24 hours. The Ministry has developed policies and procedures for the monitoring and reporting of serious occurrences which require agencies to summarize all incidents twice yearly and submit reports to the Ministry.



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We found that not all serious occurrences were being reported to the Ministry, that reports were not always submitted within the required time frame, and that there was inconsistency in the interpretation of what was reportable.

Procedures require the Ministry to analyze the semi-annual reports submitted by agencies to identify any patterns related to an individual service provider. The procedures also require the Ministry to identify possible issues regarding groups of service providers which would suggest a need for training, support, or policy modifications. We noted that many agencies did not submit semi-annual reports, and only one of the four area offices we visited prepared an overall summary of incidents reported. Consequently, the overall monitoring of serious occurrences was limited.

## 3.04

### RECOMMENDATION

To provide assurance that children are well protected, the Ministry should ensure compliance with its serious occurrence reporting procedures and take appropriate corrective action.

### MINISTRY RESPONSE

*The Ministry recently reviewed its revised serious occurrence reporting procedures to determine whether they had been implemented by all relevant service providers. While much improvement has been made, the Ministry agrees that the reporting process for serious occurrences can be improved.*

*The Ministry has developed a standard provincial form for agencies to use when completing the semi-annual summary and analysis report; the Ministry has also developed a communique for area offices and service providers that will provide further direction and clarify the definitions of serious occurrences. In addition, the Ministry will issue a directive reinforcing the Ministry's requirements for compliance with serious occurrence reporting procedures to all area offices and service providers.*

### REVIEW GUIDELINES FOR NON-RESIDENTIAL PROGRAMS

Two thirds of the CFI funding is spent on non-residential programs. Agencies are not required to submit detailed client information and the Ministry has no standardized process to ensure compliance with the legislation. Consequently, the Ministry has limited assurance, for example, that only children, and those adults who are eligible under the legislation, are being served.

Almost half of the 38 non-residential agencies we reviewed were either planning a review of their programs or had just completed a review. The nature of the completed reviews varied in depth, scope and focus, and were usually performed at the initiative of the agency.

There are no standardized periodic reviews of non-residential programs nor any guidelines to direct Ministry staff in the review of an agency. We noted a number of agencies which may benefit from a thorough review of their programs.

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## RECOMMENDATION

The Ministry should consider introducing review procedures for all non-residential programs. This will assist the Ministry to ensure that agencies provide a satisfactory level of service and comply with the legislation.

## MINISTRY RESPONSE

*The Ministry agrees that there is a need for common methodology/guidelines for non-residential program reviews. The Provincial Auditor's finding that half of the programs reviewed were either planning a review or had just completed one is seen to be a system strength.*

*The Ministry will develop standardized expectations for reviews of non-residential programs.*

## PROGRAM CO-ORDINATION

The 1990 report *Children First* concluded that existing children's services were too fragmented, overspecialized, and overburdened. In addition, it concluded that they had limited outreach capacity and were working in isolation from one another. Part of the problem was that children's services were delivered by several different groups which operated independently of each other.

Initiatives are under way to co-ordinate the many children's programs offered by the Ministry, other ministries, agencies and municipalities. These include better communication and co-operation between the agencies and active participation by the Ministry and agencies in local service planning bodies.

In addition to the Ministry's efforts, steps to implement the recommendations of *Children First* have been taken by a number of committees, including the Interministerial Committee on Services for Children and Youth, and the Premier's Council on Health, Well-Being and Social Justice.

One of the major directions of the Ministry's March 1993 *Policy Framework* is to provide co-ordinated access to an integrated system of services funded under the Child and Family Services legislation.

We will follow up on the Ministry's efforts to enhance program co-ordination when sufficient time has elapsed for implementation of the framework.

## AGENCY ACCOUNTABILITY

The Ministry's primary monitoring tool to hold CFI agencies accountable for the management of public funds is the service planning and reporting process. This process was developed to establish a consistent approach to planning, funding, and program evaluation. Agencies are required to submit a service plan, in-year results reports, and a final results report.

The service plan describes in detail the services to be provided in the upcoming year, proposes a budget, and outlines measurable service objectives. The in-year results reports are submitted for the sixth and ninth months of the year. These reports summarize expen-

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ditures and services provided to date. The final results report is submitted with audited financial statements and a program expenditure reconciliation.

For the 1991/92 fiscal year, we reviewed the service planning process for 41 agencies. Generally, we found that the process was satisfactory and that agencies had complied with the Ministry's reporting requirements.

However, in the area of monitoring performance, the Ministry did not have any procedures to measure the effectiveness of treatment programs provided by agencies to children and/or their families. Many agencies, on their own accord, attempt to measure the effectiveness of their programs with parent interviews, child assessment criteria, staff feedback, community surveys, or consultant reviews.

The Ministry has recognized that it needs to improve the measurement of effectiveness. For example, one area office is incorporating quality assessment measures into service agreements with the agencies.

The Ministry's new *Policy Framework* has also identified a need for the measurement of effectiveness in improving accountability. In its initial efforts, the Ministry intends to focus on clearly identifying appropriate, adequate, and valid client benefit/outcome indicators in providing services to children and/or their families.

We will follow up on the Ministry's success in implementing effectiveness measures when sufficient time for implementation has elapsed.

## LICENSING OF RESIDENTIAL FACILITIES

The *Child and Family Services Act* requires the Ministry to license all agencies operating a children's residence to ensure that children receive the minimum standard of care specified in the legislation.

In April 1992, the Ministry completed the *Children's Residence Licensing Manual*, which provides detailed procedures that must be completed before a licence can be issued or renewed.

The procedures require that a licence be renewed annually, and that the Ministry complete an inspection at least once every two years. In the alternate years, the agencies, with Ministry approval, can complete a self-assessment, which is reviewed and approved by the Ministry before a licence is issued.

We found that the Ministry's residential licensing procedures were adequate to ensure that CFI agencies complied with the *Child and Family Services Act*.

## AGENCY STAFFING

To ensure the safety and well-being of children in residence, the *Child and Family Services* legislation states that every agency must have a minimum number of program staff on duty at all times. In the fall of 1985, the Ministry formed an "Advisory Committee on Staffing Qualifications" to recommend minimum qualifications for staff involved in providing services to children under the *Child and Family Services* legislation. The committee consisted of representatives of all major service, professional and educational organizations, as well as Ministry representatives. In its August 1987 final report, the committee

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recommended criteria for hiring staff for services offered under the Child and Family Services legislation.

We reviewed the staffing levels for 21 agencies with residential facilities and concluded that they all met the minimum staffing requirements of the legislation. We also concluded that at the agencies for which information was available, staff qualifications were in accordance with the educational and experience criteria recommended by the advisory committee.

## **COST EFFECTIVENESS OF SERVICES**

We concluded that overall the Ministry has limited assurance that agencies are providing adequate and cost-effective services to children and/or their families.

### **ECONOMY AND EFFICIENCY**

The Ministry has not developed benchmarks or standards to determine the reasonableness of CFI services. The average cost per space in residential facilities for the 1991/92 fiscal year was \$55,000 per year. However, for the 31 agencies with residential facilities in the four local offices we visited there were significant variations from this average, as follows:

<b>Residential Cost per Space (\$ thousands)</b>	<b># of Agencies</b>
\$20 - \$39	6
\$40 - \$59	11
\$60 - \$79	4
\$80 - \$99	6
\$100 - \$119	3
\$120 - \$139	1
Total	31

The Ministry had explanations for some of the variances. For example, the six agencies with the lowest cost per space offer natal services which require fewest staff per resident and are therefore less expensive.

We also noted that reported administrative costs—which are predominantly salaries—ranged from 10 per cent to 40 per cent of total expenditures. These costs had not been assessed for reasonableness.

### **RECOMMENDATION**

The Ministry should develop a range of acceptable costs and staffing levels for Child and Family Intervention services to guide Ministry and agency staff in identifying significant variations in costs. This will enable the Ministry to take corrective measures to control costs.



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## MINISTRY RESPONSE

*The Ministry agrees that it is difficult to measure significant variations in cost in this program area. There are considerable differences in the types and range of programs funded under Child and Family Intervention; for instance, there is significant cost variation between residential and non-residential programs and highly specialized treatment and supported independent living services.*

*These differences and the availability of other local community resources will account for some of the different staffing levels and cost variations noted in programs reviewed by the Provincial Auditor. As the Provincial Auditor has noted in the agencies reviewed, those with the lowest cost per space offered natal services which require fewer staff per resident and are therefore less expensive.*

*The Ministry agrees that more work could be done in this area. As part of the work on the Children's Policy Framework, a data collection and analysis of children's expenditures will be completed by the fall of 1993 that will assist the Ministry in determining the appropriateness of costs and staffing levels.*

## MANAGEMENT INFORMATION SYSTEM

The service planning process was originally designed to provide input for a management information system which would assist the Ministry in monitoring agencies to ensure the provision of cost-effective services. This process has not been implemented to provide the Ministry with the intended program information.

With the exception of the total number of active clients reported by the agencies, the Ministry has very little information about the children being served by the CFI program. A province-wide automated management information system does not exist and even general agency information is not collected.

Plans are in place to develop a database for children's programs. However, it is planned that very little information will be collected for the CFI program.

## RECOMMENDATION

The Ministry should re-evaluate its planned management information system to ensure that sufficient information is collected. This will assist the Ministry in monitoring agencies to ensure the provision of cost-effective services.

## MINISTRY RESPONSE

*Your findings confirm the importance of sufficient management information. As a first step, by September 30, 1993, the Ministry will have gathered and automated the service and resources portions of the 1992/93 results for all CFSA transfer payment and DOE programs. The data will then be incorporated into an executive information system—Management Services and Resources to support decision making. The system makes use of existing information which relates program, financial, and resources data.*

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*For service planned agencies, we will begin collecting and automating in-year result reports by the end of October, 1993.*

*In addition, the Ministry intends to ensure implementation of business and administrative processes to collect consistent program, financial, and resources data for all its programs.*

## **PROGRAM FUNDING**

The agencies' annual service plans include detailed budget proposals. The Ministry reviews these proposals and either approves or varies the request for funding.

For the 1992/93 fiscal year, funding was in essence fixed at 0.5 per cent more than the prior year's approved budget. We reviewed the Ministry's funding process and found that increases in funding were calculated accurately, all budgets and service plans had received the required approvals and the correct amount of money was paid to agencies.

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## MINISTRY OF COMMUNITY AND SOCIAL SERVICES

# Young Offender Services

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3.05

The Young Offender Services program of the Ministry of Community and Social Services provides services under the *Child and Family Services Act* and Regulations to youths aged 12 to 15 years who are charged with offences primarily under the federal *Young Offenders Act*. The objective and purpose of the program is to protect society through a combination of programs that provide safety and security, and actively assist, support, and encourage young offenders to become law abiding citizens.

Young offenders who are 16 or 17 years old at the time they commit an offence are served by the Ministry of the Solicitor General and Correctional Services. Children under the age of 12 are generally handled outside the young offender legislation by Children's Aid Societies.

Young Offender Services are provided by the Ministry through 4 regional, 13 area, and 64 probation offices. For the 1992/93 fiscal year, program expenditures totalled approximately \$118 million, \$78 million of which consisted of transfer payments to over 100 agencies. The federal government provided \$22 million in funding under the federal/provincial cost-sharing Young Offenders Agreement.

The Program's service indicators according to the type of Court Order for the 1992/93 fiscal year were as follows:

	Average daily count	Annual admissions	Annual days of care
Open custody*	371	3,222	165,572
Secure custody*	238	1,660	102,506
Open detention**	104	2,546	50,873
Secure detention**	100	3,164	44,174
Probation and community service ***	—	8,556	—
Alternative measures ***	—	4,952	—
Totals	813	24,100	363,125

\* Placement in an open or secure residential facility to serve custody terms of the Court disposition.

\*\* Placement in an open or secure detention facility before, or on remand from, a Court hearing.

\*\*\* Non-custody terms that involve supervision.

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## OBJECTIVES AND SCOPE

Our audit objectives were to assess the Ministry's procedures for monitoring Young Offender Services:

- for compliance with the federal *Young Offenders Act*, the provincial *Child and Family Services Act*, and related Regulations and Ministry guidelines; and
- to ensure that funds were spent in a cost-effective manner.

Our audit included interviews with Ministry officials, visits to four area offices including five probation offices, and review of any relevant work by the Ministry's Comprehensive Audit and Review Branch.

## AUDIT OBSERVATIONS

### COMPLIANCE WITH LEGISLATION AND MINISTRY GUIDELINES

#### COURT ORDERS

The Ministry is responsible for ensuring the compliance of individual young offenders with the orders of the Youth Court. Court orders can take the form of either "dispositions" or "alternative measures". Dispositions are the result of formal judicial proceedings under the *Young Offenders Act*, while alternative measures are sanctions set and administered by the Ministry at the referral of the Crown attorney.

We concluded that the Ministry had generally enforced compliance with custodial dispositions and "alternative measures." However, we noted some deficiencies in the monitoring of compliance with non-custodial dispositions. For example, where the Ministry was allowed discretion we found insufficient documentation of reasons for:

- discharging certain young offenders prior to completion of all conditions of probation or community service orders; and
- not complying with Court recommendations to provide young offenders with counselling or therapy programs.

The following chart outlines the different types of Court Orders contained in the 80 case files we reviewed, and instances of lack of documentation to support compliance with all the terms of Court Orders. The case files were selected randomly from the different types of Court Orders. Some of the case files contained more than one disposition for repeat offenders.



Type of Court Order	Number reviewed	Incidents of lack of documentation
<i>Secure custody:</i> insufficient documentation on file e.g., court disposition missing	30	2
<i>Open custody:</i> insufficient documentation on file e.g., court disposition missing	46	3
<i>Probation:</i> lack of documentation to support compliance with all the terms and efforts made to provide counselling/therapy	63	27
<i>Community service:</i> lack of documentation to support compliance with all the terms	34	5
<i>Alternative measures</i>	8	0

## RECOMMENDATION

The Ministry should ensure that proper documentation is retained on file to support enforcement of the orders of the Youth Courts. Reasons should also be documented where the Ministry exercises discretion to waive certain terms and conditions of a probation or community service order. This will provide assurance that the Ministry has complied with all the terms and conditions of the Court Order before a young offender is discharged.

## MINISTRY RESPONSE

*The Ministry agrees that further improvement could be made to documentation related to the enforcement of non-custodial dispositions. Considerable resources have already been devoted to the standardization of best practice in the Young Offender Services Manual. In accordance with this recommendation, the Ministry will further clarify accountability expectations through the standards and guidelines in the Manual. In addition, Probation Supervisors will be provided with further definition of the requirements of case file reviews. Staff will be directed to account for and document the use of discretion in supervising the terms and conditions of all Court Orders. The introduction of a risk/need assessment and classification instrument as the basis for case management decisions, will assist staff in accounting for discretion in enforcement.*

## LICENSING INSPECTIONS

The licensing provisions of the Regulations under the *Child and Family Services Act* set out minimum acceptable standards for the provision of residential care to children. The same requirements apply to young offender residences. The Ministry licenses facilities operated by transfer payment agencies, while Ministry-operated facilities are issued a "Letter of Compliance."

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A licence or "Letter of Compliance" is issued for a maximum of one year. A licensing inspection generally involves documentation reviews, interviews with staff and youth, and physical inspection of the facility. These procedures are detailed in the *Children's Residence Licensing Manual*. The Ministry's Investigations and Inspections Unit also conducts annual inspections of all secure custody facilities for young offenders to ensure compliance with legislation and Ministry policies and standards.

Our review of 15 randomly selected licensing files of transfer payment agencies indicated that licensing reviews were generally up to date, and the Ministry had essentially cleared all backlogs. However, we noted the following deficiencies in the licensing process:

- the *Young Offender Services Manual* prescribes additional standards for young offender facilities. These standards have not been incorporated in the inspection checklists. Consequently, there was no assurance that the additional checks required for young offender facilities were being carried out by inspectors;
- lack of specific guidelines on inspection procedures have resulted in inconsistent practices from one area office to another. For example, we noted significant differences in the scope and extent of reviews conducted to support the decisions to issue licences;
- there is no requirement to conduct on-site licensing inspections of individual foster homes; and
- inspections of mixed use facilities, where young offenders are housed with non-young offender residents, are currently not subjected to the *Young Offender Services Manual* standards.

We were advised that the Ministry was working to integrate the *Young Offender Services Manual* standards with the licensing process. Furthermore, the Manual is to be revised in 1993 to include specific reference to foster care homes. The Ministry also informed us that the revised *Children's Residence Licensing Manual*, which came into effect on April 1, 1993, should clarify procedural expectations for Ministry staff doing the licensing.

We will follow up on the effectiveness of the revised Manual as soon as sufficient time has elapsed after its implementation.

We also reviewed three licensing files for secure residential facilities directly operated by the Ministry, including reports issued by the Ministry's Investigations and Inspections Unit.

We noted that it was not until 1991 that the Ministry subjected one long-established facility to a "Letter of Compliance" inspection. The Ministry requires such inspections to be carried out annually. The Ministry's Investigations and Inspections Unit had noted ongoing problems at the facility since 1989. The problems included inadequately trained staff, excessive use of force by staff, the state of the facility, and quality of food.

The Ministry advised us that many of the recommendations made by the Investigations and Inspections Unit, and those resulting from the 1991 "Letter of Compliance" inspection have been implemented, and others are in the process of implementation. The Ministry is also currently conducting another "Letter of Compliance" inspection, as well as an operational review at the facility.

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## RECOMMENDATION

In light of the time elapsed since the initial identification of these problems, we urge that the recommendations of the Investigations and Inspections Unit, where accepted by the Ministry, be implemented on a much more timely basis, so that the identified problems can be resolved as quickly as possible.

## MINISTRY RESPONSE

*The facility mentioned in the report has been the subject of a number of reviews in the past three years. The Ministry has taken steps to ensure that current management consolidates the recommendations of all reviews, and follows through with implementation in a timely fashion.*

*An Independent External Advisory Committee comprised of experts from across the province was struck in February 1993. The Committee meets monthly to review progress, critique, suggest changes, and provide advice on further changes.*

*Significant changes have already been implemented in the areas of food services, administration, and program. Major renovations are nearing completion in the residential areas.*

## COMPLAINTS AND SERIOUS OCCURRENCES

Under the *Child and Family Services Act*, a young offender has the right to make complaints regarding alleged violations of rights and to have the complaints reviewed by the administrator of the residential facility. Young offenders can also file complaints to the Office of Child and Family Service Advocacy, the Custody Review Board, or the Office of the Ombudsman. Additionally, facilities are required by established procedures to report serious occurrences to the Ministry as they happen. As well, since October 1991, facilities have been required to submit semi-annual summaries of serious occurrences which must include a trend analysis. The Ministry is required to analyze these reports to identify patterns related to a facility, and possible issues regarding groups of facilities, which can suggest a need for training, support or policy modification.

We noted from our review of 15 randomly selected files that:

- summary reports were submitted without trend analyses; and
- there was no evidence of analysis by the Ministry to identify patterns related to the facilities.

## RECOMMENDATION

The Ministry should ensure that facilities comply with the requirements for reporting serious occurrences. Proper analysis of these reports will enable the Ministry to identify problematic trends that may require corrective action.

## MINISTRY RESPONSE

*The Ministry recently reviewed serious occurrence reporting procedures to determine whether procedures had been implemented by all relevant service providers. As a result of*

this internal review and the Provincial Auditor's findings, the Ministry will improve the reporting process for serious occurrences.

The Ministry has developed a standard provincial form for agencies to use when completing the semi-annual summary and analysis report; the Ministry has also developed a communiqué for area offices and service providers that will provide further direction and clarify the definitions of serious occurrences. In addition, the Ministry will issue a directive reinforcing the Ministry's requirements for compliance with serious occurrence reporting procedures to all area offices and service providers.

### CASE MANAGEMENT

The Ministry is expected to improve the chances of young offenders for successfully returning to their communities by providing appropriate programs to meet their special needs. To meet such expectations, the Ministry has developed standards and guidelines which are contained in the *Young Offender Services Manual*. All service providers are required to comply with this manual.

The *Young Offender Services Manual* requires that a "case management plan" be developed for each young offender receiving a disposition in order to organize and deliver relevant services to a young offender. It is developed from an individual assessment of the young offender's needs and risk level. The manual also requires that the plan include specific goals, how these goals are to be achieved, and the method of evaluating goal achievement.

Our review revealed that Ministry staff did not always measure and evaluate their performances or those of young offenders in achieving the goals set in the case management plan. From the case files we reviewed, we noted 87 instances where a case management plan was required. The following chart outlines the number of instances of non-compliance we noted.

Case Management Plan Component	Number of Instances of Non-compliance
Plan in the case file	18
Goals specified	5
Means to achieve goals specified	10
Method to evaluate goal achievement specified	16
Quarterly update included	19

We believe that it is vital for the Ministry to evaluate and conclude on the outcome of its individualized case management efforts. This will provide the necessary feedback to the Ministry and an assessment of its ability to meet the needs of young offenders.

The Ministry advised us that it is currently developing outcome indicators and procedures for measuring and monitoring its case management efforts.

We also noted that the Ministry does not have a formal review process to ensure that service providers comply with the *Young Offender Services Manual*. Although area offices



are required to conduct semi-annual case reviews of probation officer files, the *Manual* does not specify what the reviews should encompass.

Our examination of the case review process at the four area offices visited revealed inconsistent practices. For example:

<b>Area Office A:</b> semi-annual reviews are done on all files, but no supporting documentation is kept.
<b>Area Office B:</b> annual reviews are performed on all files, but no supporting documentation is kept.
<b>Area Office C:</b> annual reviews are conducted on all files, and supporting documentation is kept.
<b>Area Office D:</b> 10 files are reviewed per probation officer each year, but insufficient documentation is kept.

## RECOMMENDATION

The Ministry should establish a formal review process to ensure compliance with the *Young Offender Services Manual*. This will provide assurance on whether service providers are meeting the expected Ministry standards and complying with established guidelines. The process will further enhance consistency in the level of young offender services provided across the province.

## MINISTRY RESPONSE

*Considerable work has already gone into the development of a compliance review mechanism for young offenders services, as part of the development of a combined manual for all service providers. The Ministry will integrate the standards of the Young Offender Services Manual with the children's residential licensing process as one means of structuring regular compliance reviews. In addition, the Ministry is working to position standards compliance within the broader contexts of the Children's Services Policy Framework, the agency accountability framework, and current research outcomes on effective programming.*

## PLACEMENTS

Each young offender receiving a custodial disposition must be placed immediately in a secure or open facility according to the Court Order. It is up to the Ministry to select the most appropriate facility based on its assessment of the young offender's needs and risk level. Weekly classification meetings to place young offenders are conducted by probation staff. Reasons for selection of a particular facility are required to be documented on the Placement Consideration Form.

Our review of case files and Placement Consideration Forms revealed little documentation in support of placement decisions. We were unable to determine whether each placement represented the preferred option, given the needs and the level of risk of the young offender.

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Although the Ministry is expected to place young offenders close to their families—who can provide support—we noted that many young offenders were placed outside of their home communities. In one month, one area office had placed 17 young offenders outside its area due to a shortage of beds.

The Ministry's Custody Review Board, created under the *Child and Family Services Act* to review the circumstances of young people residing in places of custody or detention, noted in early 1993 that 90 per cent of the applicants had complained about being placed far away from their families. The Board also noted that severe shortages have resulted in placement of young offenders in any facility with an available bed rather than on the basis of the young offender's needs. These findings are further supported by a number of recent reviews conducted by the Ministry.

The Ministry acknowledged that preferred placement is not always possible due to the Ministry's inability to control the intake from the Courts and the inadequate supply and distribution of appropriate beds. One area office informed us that it had initiated a nine-month pilot project in January 1993 to review whether there were a sufficient number of appropriate types of residential programs within its area to meet the differing needs of the young offenders.

## RECOMMENDATION

The Ministry should improve its process for determining the number of beds needed in its various residential programs. This will assist the Ministry in placing young offenders in the most appropriate residential facility and at the same time provide the best possible opportunities to meet their special needs.

## MINISTRY RESPONSE

*The Ministry has been doing research on effective interventions for children and youth, and is currently developing a manual to assist service providers in designing promising programs.*

*The introduction of a common assessment and classification instrument will be implemented to assist service providers in determining the type and level of services required, and will enhance the capacity of the system to target available resources to clients based on need. The ongoing monitoring and evaluation of the instrument will yield useful information concerning the relationship between client profiles and service interventions.*

## AGENCY ACCOUNTABILITY

The need for accountability for the manner in which public funds are spent by transfer payment agencies is outlined in a 1988 Management Board of Cabinet Directive. The Directive specifically requires each Ministry to establish an accountability framework that includes setting expectations, contracting for service, monitoring performance, and taking corrective action.

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The Ministry indicated that accountability is currently being achieved through service planning, legal agreements, the licensing process, and the Ministry's working relationship with the agencies.

The Ministry advised that a service agreement is required of all transfer payment agencies. The agreement has to describe the programs provided and their objectives, including the method of evaluating the effectiveness of these programs. Except for some small private operators, a standard "service plan" forms the basis for service agreements. The service plans are required to be submitted annually to the Ministry.

We reviewed the service agreements of nine randomly selected agencies and found that all nine agreements were essentially complete, but lacked details on the methods used to evaluate the effectiveness of the agencies' programs.

The Ministry acknowledged that there was a need to improve the measurement of effectiveness and indicated that it had recently completed a *Policy Framework for Services Funded Under the Child and Family Services Act*. In this paper, the Ministry has proposed developing outcome indicators to better assess the effectiveness of various young offender programs. The project is scheduled for completion by the end of 1993. The Ministry also plans to determine in 1994 how to expand its information systems to collect the new outcome data and use it to evaluate programs.

We will follow up on the Ministry's efforts in developing and implementing effectiveness measures at an appropriate time.

## **COST EFFECTIVENESS OF YOUNG OFFENDER SERVICES**

It is mandatory under the federal *Young Offenders Act* that the Ministry provide the prescribed young offenders services. The number of young offenders admitted to the program is determined by the sentencing of the Youth Courts. Therefore, the Ministry is faced with a challenge in planning and allocating its limited resources cost effectively to meet all needs and shifts in demand across the province.

We concluded that the Ministry has limited assurance that services to young offenders are provided in the most cost-effective manner.

## **EQUITABLE ALLOCATION OF FUNDS**

We noted that the Ministry's allocation of funds to the various service providers was not based on prioritization of service demands. The service providers were essentially given a fixed percentage increase annually over the previous year's budget. The increase for the 1992/93 fiscal year was 0.5 per cent.

In our opinion such funding methods do little to encourage cost-effective use of funds and equitable distribution of funds based on priority of needs.

Although 70 per cent of the expenditures relating to Young Offender Services are residential costs, we found that the Ministry lacked a province-wide analysis of volume, utilization, capacity, and trends to determine an equitable allocation of funds. We noted that one Regional Office's analysis stated that \$2.1 million was paid for unused contracted services as a result of an overall 80 per cent utilization rate in the region. Similarly, one area office's

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utilization rates for many fully funded service providers ranged from 60 per cent to 80 per cent. Cost analysis for the unused capacity was not available. In contrast, some area offices were experiencing overcrowding in secure residential facilities.

We also noted wide variations in the workload of the probation officers from one area office to the other. The Ministry acknowledged that it has yet to develop standards to monitor the workloads of the probation officers.

## **RECOMMENDATION**

The Ministry should improve the processes for equitable allocation of funds so that they are more appropriately based on priority of needs.

## **MINISTRY RESPONSE**

*The Ministry recognizes the need to further develop a flexible service system, combining sufficient quantity and quality of resources. Accordingly, the Ministry has recently completed a corporate analysis of volume, utilization, and capacity trends in the young offender services, culminating in The Young Offender Services Operational Plan, which addresses the equitable distribution of resources and placement requirements in the short and longer terms, given available allocations.*



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## MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS

# Registrar General Imaging System

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The Office of the Registrar General ("the Branch") is a branch of the Registration Division of the Ministry of Consumer and Commercial Relations. The Branch administers the *Vital Statistics Act*, the *Marriage Act*, and the *Change of Name Act*.

The Branch registers vital events in the lives of Ontario citizens—births, marriages, deaths, still-births, adoptions, divorces and changes of name that occur in the province. The Branch also provides proof of registration, such as birth certificates to entitled persons, and authorizes clergy to solemnize marriages.

Legislation requires various individuals, including members of the public, hospital staff, doctors, clergy, funeral directors and over 900 division registrars, to complete registration documents when a vital event occurs in Ontario. These documents, which describe the particulars of the event, must then be sent to the Branch. The Registrar General must number, examine and file each registration document before any proof of registration services can be provided.

In an average year, the Branch registers 360,000 Ontario vital events and provides 530,000 proofs of registration to the public. Most registrations and proof of registration requests are made by mail. The main operation is in Thunder Bay, and the Branch provides counter service in Thunder Bay and Toronto.

## OBJECTIVES AND SCOPE

The \$9.3 million computerized Registrar General Imaging System (RGIS) was implemented in 1991 as part of the Branch's relocation from Toronto to Thunder Bay. The system enables staff in both locations to view images of the original registration documents on computer screens, rather than having to retrieve the actual paper documents.

The objectives of our audit of the new imaging system were to assess whether:

- the business case for the new system provided sufficient justification for its implementation;
- project development and implementation costs were adequately controlled according to Management Board and Ministry requirements; and

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- system resources were adequately secured from unauthorized access or changes or unexpected interruptions.

We obtained information through interviews, observation, the review of available documentation, and testing of the system.

In 1992, the Office of the Provincial Auditor also conducted a special audit at the Branch at the request of the Public Accounts Committee. The primary objective of that audit was to investigate the reasons behind the numerous complaints being received from the public regarding the level of service provided by the Branch. The results of the audit were reported to the Public Accounts Committee on December 31, 1992, and in January 1993 the Committee met to review this report and question Ministry officials.

## AUDIT OBSERVATIONS

Imaging is a new and rapidly changing technology which is being introduced by a growing number of private and public sector organizations to improve their document management processes. This project was the first major use of imaging technology at an Ontario government ministry, and represented a major technological upgrade of the paper-based system which had been in place for over 100 years. As such, and particularly because the implementation was concurrent with the relocation of the office to Thunder Bay, this was a very challenging initiative.

The Ministry competitively selected an outside firm to deliver the hardware and software imaging solution. In general, we were satisfied that the project development and implementation costs were adequately controlled.

## THE BRANCH'S EXPECTATIONS FOR THE NEW SYSTEM

The following table outlines our assessment of the progress made by the Branch in meeting the specific expectations expressed in their business case.

Branch's Expectations	Our Observations
<b>The ability to provide same-day counter service for certified copies in Toronto</b> once the Branch moved to Thunder Bay and, ultimately, to be able to provide counter service from other locations throughout Ontario	Same-day counter service in Toronto and Thunder Bay achieved
<b>Improved customer service levels</b> through reduced turnaround time for requests for certified copies	Achieved
<b>Cost recovery</b> largely through productivity gains resulting from the elimination of 23 staff positions	Savings offset by relocation problems
<b>Minimizing the impact of deterioration of paper</b> through storage of images of original paper registrations in computer-readable form; enhanced security and back-up capabilities	Achieved
<b>Support for employment equity initiatives</b> because registration documents could be accessed on a computer screen as opposed to lifting heavy paper registers	Achieved

The Branch's primary justification for the imaging system was to provide same-day certified-copy counter service in Toronto and Thunder Bay, and in future, in other locations throughout Ontario by allowing shared computer access to the registration information. However, aside from Thunder Bay and Toronto, this service has not been extended to any other locations.

The other major justification for the project included in the Ministry's submission to Management Board was an expected reduction in staff complement by 23 positions. While imaging has resulted in efficiencies in certain areas, these have been offset by problems resulting largely from the Office's relocation to Thunder Bay which exacerbated the significant backlog of registrations and customer requests which had built up in the months before the move as many of the Office's experienced staff found other jobs.

To eliminate the backlog, and respond to current demands, the Ministry re-allocated to other areas any staff made available due to the implementation of the imaging system and any significant staff reductions may be difficult to achieve without further technological enhancements.

## GENERAL BENEFITS OF IMAGING TECHNOLOGY

We also evaluated the impact of the imaging system on the Branch's two major processes against the general benefits typically realized from investments in imaging technology, as recognized by industry experts. We recognize that the Ministry decided not to integrate the imaging system with their existing vital statistics information system because of time constraints, and therefore realized that some benefits often realized from imaging would not be achievable in the short term.

The following chart identifies the areas in which we observed that the imaging system had made improvements.

General Benefits of Investment in Imaging Technology	Our Observations of Benefits Realized by the Branch in the Short Term	
	Registering Vital Events	Providing Proof of Registration of Vital Events
Increase access to information	Substantial	Substantial
Reduce process time	Partial	Partial
Improve systems integration	Minimal	Minimal
Reduce labour cost	Partial	Partial
Increase security	Partial	Partial
Increase quality	Minimal	Partial
Improve process performance information	Substantial	Minimal
Reduce barriers to physically handicapped employees	Substantial	Substantial

In particular, we noted that integration of the imaging system with the other existing vital statistics application system would more fully harness the potential and productivity improvements of imaging.

## RECOMMENDATION

To harness the full potential and productivity improvements from imaging, the Branch should more fully integrate its imaging system with the existing vital statistics computer system.

## MINISTRY RESPONSE

*The Office of the Registrar General (ORG) is in full agreement with this recommendation. Proper integration of the Vital Statistics Information Systems (VSIS) and imaging systems cannot be reasonably achieved without replacing the VSIS system and producing a design that reflects a streamlined and controlled process for registering events and servicing requests. The Office of the Registrar General is planning to initiate this work in 1993/94.*



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## IMPACT ON CUSTOMER SERVICE

One of the Branch's primary objectives for developing the system was to expand customer service to remote locations across the province. In 1989, the Branch envisioned a concept of "one-stop shopping" through which customers could obtain full registration and proof of registration service from land registry offices located across the province. However, the Branch did not perform market studies to determine whether sufficient market demand existed to warrant the cost of providing same-day service for certified copies from remote sites. As previously stated, the Branch has not yet expanded customer service to other locations.

The imaging system has had minimal impact on all requests for proof of registration, which account for 85 per cent of total service requests. These services are still dependent on the older vital statistics system. To improve these services will require increasing the accuracy of the database, improving the method used to match service requests with the database record and reducing the elapsed time between the date an event occurs and the date it is recorded in the VSIS database.

However, for counter requests for certified copies, which represent about 5 per cent of total requests, there has been a major benefit from a customer's perspective in that the system can quickly print certified copies from the Toronto and Thunder Bay counter. Although the Branch could not calculate the volume using its computer system, we estimated based on a manual log that the Branch has printed over 44,000 certified copies from the Toronto counter since the system was introduced in April 1991. However, there is no evidence that mail customers have experienced a significant improvement in the speed of certified copy service.

## IMPACT ON REGISTRATION PROCESS

We noted that the system did not improve the vital event registration process from the perspective of persons required to complete and forward the registration documents to the Branch. For example, the system does not affect how the public, divisional registrars, hospital staff, health professionals, or funeral directors record vital events. As a result, it has not reduced the elapsed time between the date a vital event occurs and the date that it is registered, nor has it provided greater assurance that all births and deaths are registered in a timely manner, and it has not reduced the work of divisional registrars.

## RECOMMENDATION

The Branch should consider streamlining the entire registration process to improve service to the public.

## MINISTRY RESPONSE

*The Office of the Registrar General has initiated a comprehensive Change Management Program, which will address many of the requirements/options for streamlining the Registration Process. A significant improvement in the Registration process will be a major component of the project to replace the Vital Statistics Information System and to fully integrate the Vital Statistics Information System and Imaging systems. Part of the Office of*

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*the Registrar General's 1993/94 work plan includes the initial planning activities required for this project.*

The Branch could not determine the cost of providing a certificate or certified copy to the public. At time of our audit, the Branch charged the same fee for both same-day counter and three-week mail services. The fee to the public is established by regulation but is not determined in relation to the cost. We estimated that the direct labour costs for counter service were roughly twice those of the mail service. The following chart indicates that one half of the provinces charged an additional fee for providing same-day service.

Province	Standard Fee for Certified Photocopies to the Public	Additional charge for 24- hour rush service
NFLD.	*	*
P.E.I.	*	*
N.S.	\$ 15	\$0
N.B.	*	*
QUE.	\$ 8	\$0
ONT	\$ 22	\$0
MAN.	\$ 20	\$30
SASK.	\$ 20	\$30
ALTA.	\$ 20	*
B.C.	\$ 20	\$30
* Service is not provided by these provinces.		

## RECOMMENDATION

The Branch should calculate the additional cost of providing same-day counter service, and consider adopting a fee structure which reflects the true cost of providing this rush service. This would help to recover its investment in the imaging system.

## MINISTRY RESPONSE

*Earlier in 1993 the Office of the Registrar General recommended a revised fee schedule, including a same day fee for immediate counter services. The May 1993 Provincial Budget included an increased fee for certificates and searches, as well as a new surcharge of \$10 for each certificate, search, or certified copy produced or completed the same day at the Toronto and Thunder Bay Front Counters.*

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## HEALTH INSURANCE

The *Vital Statistics Act* requires the parents of children born in Ontario to send a statement of live birth to the Registrar General within 30 days of birth. Each year the Branch receives approximately 2,000 notifications of Ontario live births for births that occurred more than a year earlier. In most cases, the parents have failed to notify the Branch of their child's birth within the legislated period. The Branch registers these births in a separate process because different types of registration documents are prescribed by regulation.

In the past five years, the Branch found that at least two persons failed to register their child's birth because they had no legal status in Canada and had used another person's Ontario Health Card to receive health care. Fraudulently obtaining health insurance benefits is an offence under the *Health Insurance Act*. However, we noted that the Branch had not informed the Ministry of Health as the secrecy of registration information is protected under section 53 of the *Vital Statistics Act*.

### RECOMMENDATION

Ministry should re-assess whether the confidentiality of information section of the Act should be revised to permit disclosure in those instances where an offence under the *Health Insurance Act* has likely occurred.

### MINISTRY RESPONSE

The Ministry is presently drafting revisions to the *Vital Statistics Act* which will improve the Office of the Registrar General's flexibility to expand service levels and address changes in the public need. Included in the proposed revisions are recommendations for amendment which will:

- permit this Ministry and the Ministry of Health to jointly develop and implement a single process for birth registration and enrolment in the Ontario Health Insurance Plan; and
- authorize this Ministry to permit the Registrar General to collect personal information on behalf of the Ministry of Health for the purposes of administration of the Ontario Health Insurance Plan.

*The Ministry is pressing for the earliest possible introduction of these legislative revisions by the Government.*

## SAFEGUARDING OF BLANK CERTIFICATES

The Branch reported that a blank birth certificate had an approximate "street value" of \$5000. We observed that the managers did not reconcile the number of transactions completed with the number of blank certificates used. On bringing this to the attention of management, the Toronto Office immediately initiated reconciliation procedures. However, similar control procedures at the Thunder Bay location had not been implemented at the time of our audit.

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## RECOMMENDATION

The Thunder Bay location should implement daily reconciliation of transactions completed with the number of blank certificates used.

## MINISTRY RESPONSE

*The Office of the Registrar General has implemented a daily reconciliation procedure for the control and handling of blank certificates.*

## DATA ACCURACY

We measured data accuracy for the period May to August 1992 and found that over ten per cent of registrations contained at least one error, such as a misspelled name or incorrect place of birth. While we acknowledge that re-keying all data may not be cost effective, without ongoing procedures to monitor data accuracy, errors made during data entry will not be discovered until the public requests a certificate. Some errors will never be discovered if a certificate is not requested.

## RECOMMENDATION

The Branch should establish targets for data accuracy and conduct periodic tests to assess whether the targets are being met.

## MINISTRY RESPONSE

*The Office of the Registrar General has established a Quality Assurance Group consisting of Team Representatives from each Team, and selected Managers. The Group will meet on a regular basis to define, review, and recommend quality assurance initiatives for the entire Branch. Initially, in the Registrations Team, system reports are being generated to check the accuracy of certain key fields, including address and postal codes.*



# Curriculum Development

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Legal authority for elementary and secondary education in Ontario is granted by the *Education Act*. The Minister of Education and Training is responsible for administration of the Act and has broad powers over the delivery of education.

The Ministry sets policy in the form of curriculum guidelines, assesses and approves the textbooks to be used, determines the requirements for teacher certification, and awards diplomas to students upon their graduation from high school. The Ministry has six regional offices through which it communicates policy to and conducts monitoring of school boards.

Responsibilities for the quality of education are shared with elected trustees of local school boards. School boards have legislated authority for the day-to-day operations of schools, including the authority to appoint officers, to provide instruction and accommodation for students, to provide professional development for teachers, and to establish programs and procedures.

Ontario's publicly funded education system comprises 170 school boards administering more than 5,000 schools which currently have a collective enrolment of approximately 1.9 million students. Total expenditures for elementary and secondary education in the 1991/92 fiscal year amounted to approximately \$13.6 billion, of which about 40 per cent, or \$5.7 billion, was funded by the Province. The balance was raised locally, through property taxes. On a per capita basis, this makes Ontario's system one of the highest funded in the world.

The resources available to school boards vary according to the grants the boards receive from the Province and boards' abilities to raise taxes in their municipalities. Grants from the Province vary. Boards with larger tax bases receive minimal or no grants. For example, the seven Metropolitan Toronto boards of education receive no funding from the Province. While provincial grants are intended to ensure that each board has sufficient resources to provide the same basic level of education, board expenditure per pupil varies greatly across Ontario, from approximately \$4,000 to over \$8,000 in some cases, because of differences in local tax revenues. The Ministry's Education Finance Reform project is studying the whole matter of resources provided to school boards.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess whether the curriculum development process was cost effective and whether there were satisfactory procedures to measure and report the effectiveness of education programs and services. More specifically, we assessed the arrange-

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ments in place to ensure that a curriculum of consistent quality for both official languages is taught and learned in the province, including:

- the process by which the curriculum is developed and communicated to school boards and schools; and
- the mechanisms in place to determine whether the prescribed curriculum is actually taught in the schools and whether students acquire the intended knowledge, values, and skills.

Our audit included reviews of documents and statistics maintained by the Ministry, published literature, and interviews with educational administrators, principals, teachers, educational researchers, and other stakeholders such as representatives of colleges, universities, and businesses.

## AUDIT OBSERVATIONS AND RECOMMENDATIONS

### OVERALL OBSERVATIONS

Present arrangements for the development and delivery of curriculum could be more cost effective and are not adequate to determine that a curriculum of consistent quality in both official languages is taught and learned across the province. Therefore, procedures to measure and report on the effectiveness of education programs and services are not yet satisfactory. Information provided by Ontario colleges and universities we visited as well as the publicized results of national and international tests suggest that students in general may not be acquiring the expected knowledge and skills.

Since our audit was initiated, the Province has established a Royal Commission on Learning. We recognize that many of our recommendations for improvement touch on issues that are now within the Commission's mandate.

### OVERALL RESPONSE

*The Ministry of Education and Training welcomes the review and findings of the Provincial Auditor. The recommendations are timely. In Ontario, as in other jurisdictions, public concern about the quality and cost of education is growing. The Government is committed to effective action to build public confidence in education, strengthen accountability, and create new partnerships in education and training.*

*The recent establishment of the Royal Commission on Learning is a key part of the Government's response to public concern. The Commission has a mandate to examine elementary and secondary school programs, teacher education, accountability in education, and the organization of the school system.*

*Important curriculum and accountability questions already posed to the Commission have also been raised by the Provincial Auditor. Similarly, governance issues, such as those in*

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*French-language education, and the roles and relationships among all partners in education form part of the Commission's mandate.*

*The Ministry is already moving forward to address many of the issues of quality and accountability raised by the Auditor. Recent examples include the new initiatives in student assessment. A challenge for the Ministry in the short term is how to address the recommendations of the Provincial Auditor without pre-empting recommendations anticipated from the Commission in its final report of December 1994.*

*Elementary and secondary education is a shared responsibility between the Ministry, which sets the provincial policies, and locally elected school board trustees who are responsible for implementing these policies to reflect the needs and wishes of their communities. This partnership is outlined in statute and is also reflected in how elementary and secondary education is funded.*

*Immediate actions will be taken within the framework of this relationship. Longer-term actions will take into account the recommendations of the Royal Commission on Learning.*

*As part of the Government's commitment to accountability and partnerships, a new Ministry of Education and Training was formed through a reorganization process that began in February 1993. The former Ministries of Education, Colleges and Universities, and Skills Development have been integrated into one Ministry, bringing partners in education and training closer together. Responsibility for elementary, secondary, and post-secondary education and training, including the Government's relationship with the Ontario Training and Adjustment Board (OTAB), has been assigned to one portfolio.*

*The Ministry reorganization provides opportunities to redefine goals and reshape programs and services in light of the new mandate and the need for greater productivity in a time of reduced resources. This will be essential in order to respond effectively to the recommendations of the Provincial Auditor, particularly in the context of the Government's deficit-control measures, including the Expenditure Control Plan and the Social Contract.*

## **DEVELOPMENT AND IMPLEMENTATION OF CURRICULUM**

### **THE CURRICULUM DEVELOPMENT PROCESS**

In Ontario, the Ministry provides school boards with broad curriculum policies and guidelines which school boards translate into more specific curriculum materials and activities to assist teachers in preparing lesson plans to deliver the intended curriculum. While this permits boards maximum flexibility in tailoring curriculum to local needs and philosophies, it also causes duplication of effort and disparities in the quality of curriculum delivered to students. This is quite evident from our visits to boards and schools.

This approach becomes even less cost effective when such a wide variety of curriculum documents must be adapted to meet the unique needs of smaller numbers of students such as for special education programs and French-language education. There needs to be a better balance between local adaptations of curriculum and standards and the high cost of 170 school boards developing these independently.



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## THE NEW COMMON CURRICULUM

With the development of the Common Curriculum, the Ministry has taken a very positive step toward translating goals into learning outcomes so that curriculum and teaching methods can be directed toward achievement of those outcomes. Many educators we interviewed feel that more specific guidance on how to interpret and deliver the Common Curriculum is needed to ensure that such a significant new initiative is implemented consistently and effectively by all boards.

### RECOMMENDATION

To reduce costs and eliminate unnecessary duplication and to encourage consistent quality in the curriculum documents provided to teachers, the Ministry should co-ordinate the development by boards of curriculum and other resource documents useful at the classroom level. The Ministry should also ensure that these materials reflect the highest quality materials already developed by boards and are made available for use across the province.

### MINISTRY RESPONSE

*The Ministry supports this recommendation. School board consortia are already operating in the province to develop and share curriculum materials to assist in reducing costs and avoid unnecessary duplication.*

*We are committed to continued co-ordination of the development and distribution of curriculum and resource materials for both English- and French-language schools. A provincial clearinghouse is being established to share curriculum materials developed by school boards for the Transition Years (Grades 7, 8, and 9). School boards are encouraged to contribute to and access the ONTERIS educational database which includes information about curriculum documents and learning materials.*

*Education service needs in small and isolated school boards in northern Ontario have been examined through the Northern Education Project. This review has identified the need to bring parties together to make more program materials available throughout northern Ontario.*

*Priority is being given to enabling province-wide sharing and discussion among teachers. In partnership with the Ontario Teachers' Federation, the Ministry is funding the "Creating a Culture of Change Project" which links teachers across Ontario electronically.*

*Additional curriculum resources most needed to support the implementation of The Common Curriculum, Grades 1 to 9 will be identified, and we will take steps with our partners to co-ordinate the development of necessary materials. As well, we are producing a newsletter, for wide distribution, to facilitate dialogue and discussion about the new curriculum for these grades.*

The Ministry also assists school boards in identifying and purchasing high quality computer software through the Ontario Software Acquisition Program.



## ENSURING QUALITY CURRICULUM

Another important way to ensure Ontario's curriculum and standards are and remain of high quality is to make periodic comparisons to the curriculums in other provinces and countries. Curriculum documents to date have been developed almost exclusively with input from the Ontario education community; contact with educators outside the province and with key stakeholders in the education process has been limited. As well, there has not been a rigorous or systematic attempt to compare curriculum and standards to those of other jurisdictions, both national and international, to identify strengths and weaknesses.

With the latter objective in mind, the Ministry will participate in two studies aimed at obtaining reliable comparative data for mathematics and science curriculums: the national Student Achievement Indicator Program and the Third International Mathematics and Science Study, scheduled for the 1993/94 and 1994/95 school years respectively. However, there are not yet any formal plans to compare other areas of curriculum.

### RECOMMENDATION

To assist in improving curriculum and in establishing standards, the Ministry should more effectively involve key stakeholders in the education process—business and industry, universities and colleges, the Ministry, and the public at large—and should monitor and review on a continuing basis the education systems and standards of other provinces and developed nations.

### MINISTRY RESPONSE

*The Ministry welcomes this recommendation. The recent reorganization of the Ministry will facilitate greater linkages between the partners in elementary, secondary, and post-secondary education and training. This will support efforts aimed at improving curriculum and establishing and maintaining high standards for student achievement.*

*We are committed to enabling greater involvement in education not only by those stakeholders identified by the Provincial Auditor but by all our stakeholders, including students, parents, and labour, in ways that reflect the diversity of the province. Recent examples are:*

- *the Ontario Parents Council, announced by the Minister, with a mandate to provide advice on educational issues and to look at new ways of involving parents at the local level;*
- *the Ministry's Education-Work Connections Project to promote school community interactions to increase student retention and to assist students of all ages in transitions between school, work, and further education and training; and*
- *the School-College Linkages Project to help secondary students succeed in college, to identify local successes in school-college co-operation, and to promote partnerships for the cost-effective delivery of services and programs.*

*In September 1993, the Council of Ministers of Education, Canada (CMEC), announced the establishment of a national work group to examine curriculum comparability and possible joint initiatives in curriculum development. In addition to its involvement in CMEC activities, Ontario will continue to monitor the development in education in other countries and participate in international testing programs.*

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*We will obtain information on the mathematics and science curriculums in approximately 40 countries as part of the Third International Mathematics and Science Study and take this into consideration in our ongoing curriculum development activities.*

*The Ontario Training and Adjustment Board (OTAB) brings together representatives from business, labour, service providers, and groups representing francophones, women, racial minorities, and persons with disabilities to reform and to better plan, co-ordinate, and deliver training in Ontario. A seat has also been reserved on OTAB for a representative of Aboriginal peoples.*

## TECHNOLOGY CURRICULUM

In 1990, the Ministry introduced its Broad-Based Technology Program to secondary schools in order to meet business community expectations for more technically literate students. Enrolments in traditional skill-based technology subjects, such as woodworking and auto mechanics, had been declining over several years, and it was hoped that curriculum renewal would improve enrolment in technology programs and courses. The new program aims to give all students a broad understanding of technological principles so that they can adapt to different and changing technologies. More than 70 technical courses are being replaced by six general themes: communications; transportation; construction; manufacturing; design; and service technology. This represents a major shift in both curriculum and teaching and encourages much stronger linkages between schools and industry than in the past.

Our visits to several boards and schools participating in the Program revealed that most have not implemented the new program as intended because detailed curriculum documents have not yet been prepared. Decisions about whether the curriculum should be aimed at all students, at apprentices, or at those going on to college or university have not yet been made. Policies must be clarified, specific classroom-ready curriculum materials must be developed, and appropriate in-service training programs must be designed to ensure that teachers can deliver the curriculum in accordance with program objectives. The experience of other jurisdictions such as Germany, Denmark, and Great Britain may assist in these efforts.

## RECOMMENDATIONS

To ensure that program objectives are met, the Ministry should:

- clarify the objectives of the Broad-Based Technology Program and communicate those objectives to schools and school boards;
- develop, in co-operation with other stakeholders, curriculum to support the Broad-Based Technology Program, including specific activities for the classroom, to ensure that learning outcomes will be consistent with the program's objectives; and
- collect information about best practices and successful programs from boards that have implemented the broad-based technology curriculum and disseminate such information to all boards.

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## MINISTRY RESPONSE

*We agree with the need to clarify the objectives of the Broad-Based Technology Program. Curriculum guides for each of the six general themes are being developed in consultation with the field and are being made available in draft form in the fall of 1993. These guides are based on measurable learning outcomes and encourage local partnerships with industry and community colleges.*

*We agree with the need to develop curriculum support materials. For the past three years, the Ministry has worked with a consortium of over thirty school boards that has now expanded to become the Technological Education Curriculum Consortium of Ontario (TECCO), operating on a regional basis. Invitations to join TECCO were sent out in June 1993 to all school boards in the province. Ministry regional office staff will liaise with TECCO's regional groups.*

*One of the objectives of TECCO is to improve the collection and dissemination of information on best practice in delivery of the new programs. In 1992/93 the Ministry participated with the boards in workshop presentations that had the same goal. This year, a central co-ordinating committee is establishing a province-wide electronic network for the sharing of information and ideas, in addition to continuing with regional workshops.*

## DELIVERY OF FRENCH-LANGUAGE CURRICULUM

Under the *Education Act*, every French-speaking person qualified for primary or secondary education in Ontario has the right to education in French, in an instructional unit operated or provided by a school board. In Ontario, French-language education is delivered through a variety of governance arrangements which, in order of their relative influence on programs and services delivered include: three autonomous French boards, fifty minority French sections within English boards, and over fifty English boards either with or without French-language advisory committees.

French-language schools are distinct from the French immersion schools operated by many boards. French immersion schools are essentially meant for English-speaking students seeking opportunities to acquire education in French. French immersion programs are not mandatory for school boards to offer.

Ministry reviews suggest that the quality of French-language education in Ontario may on average not be equivalent to that provided by English schools. The main difficulty is in trying to provide quality curriculum, teachers, and facilities to a small, widely dispersed population in a cost-effective manner. One impediment is that the distribution of students entitled to receive French-language education frequently does not coincide with the boundaries of the Ministry's regional offices and the school boards.

## RECOMMENDATIONS

To improve quality, consistency, and cost-effectiveness in curriculum delivery, the Ministry should co-ordinate the delivery of French-language curriculum in the province.



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The Ministry should also consider alternatives to the existing boundaries of regional offices and school boards to facilitate a cost-effective delivery of the French-language curriculum in the province.

## MINISTRY RESPONSE

*The Ministry of Education and Training recognizes the need to improve the delivery of French-language curriculum. In co-operation with French-language school board officials, the Ministry is working towards an agreement on principles and mechanisms for co-ordination of French-language curriculum development. This agreement will facilitate multi-board curriculum initiatives specific to The Common Curriculum, Grades 1 to 9, beginning in the school year 1994/95.*

*As well, through the Learning Materials Fund, we are giving a high priority to curriculum projects involving partnerships between school boards in the 1994 request for proposals.*

*Furthermore, the Ministry has negotiated agreements in 1993 with consortia of school boards or French-language sections of boards for the operation of French-Language In-Service Training Centres for teachers in three of our six regions. Similar Centres are expected to be operational in 1994/95 in the remaining three regions.*

*These initiatives are intended to improve the quality and consistency of curriculum delivery through strengthened collaboration and sharing of expertise.*

*The way we provide regional services in our reorganized Ministry is under review. The Royal Commission on Learning is examining issues related to French-language governance.*

## FRENCH-LANGUAGE CURRICULUM MATERIALS

Despite Ministry efforts to increase the supply of appropriate French textbooks and other resource materials, there is still far less available for French students than for English students, particularly for senior grades. For example, for Grades 4 to 6, there were only 50 per cent as many books available in French as in English. For the year prior to graduation from high school for university-bound students, there were only 25 per cent as many books in French as in English for subject areas such as mathematics, science, technology, business studies, and physical education.

The French Language Materials Fund (*Fonds de langue française - Matériel Didactique*) created to finance the development and production of French learning materials has been a valuable source of learning materials for teachers we interviewed. However, there have been some significant delays in producing these materials and over 25 per cent of the some 140 projects underway as of May 1993 were overdue, some by as much as five years. More timely monitoring of the progress of projects would help reduce these delays. A more thorough evaluation of school priorities for materials and the extent of financial assistance provided to publishers would better ensure that funding is directed to the projects of greatest need.

In addition, a more proactive and ongoing process to evaluate curriculum materials from other French-language jurisdictions to determine appropriateness or adaptability to Ontario curriculum may help to provide additional materials at reasonable cost.



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## RECOMMENDATIONS

To ensure cost-effective delivery of French-language materials the Ministry should:

- periodically perform a more thorough evaluation of needs to determine which types of textbooks and other support materials are used and needed most and consider adjusting the level of financial support for producing these books to reflect market conditions;
- give more proactive consideration to the French-language materials published in other provinces to determine their applicability for French-language education in Ontario; and
- improve its monitoring of the development and production of French-language classroom materials so that unnecessary delays could be anticipated and prevented.

## MINISTRY RESPONSE

### Periodic Evaluation

*The Ministry agrees with the need to perform a periodic evaluation of the supply and demand of learning materials appropriate for French-language schools. A proposal to carry out this evaluation will be prepared in 1994.*

*The Ministry will improve its current annual evaluation of needs for learning materials by encouraging greater involvement of teachers in setting priorities for the Learning Materials Fund, beginning in 1994. Annually since 1991, the Ministry has provided school principals and supervisory officers with the list of funded projects completed in the previous 12 months so that their use is promoted. Beginning in the fall of 1993, teachers will also receive the list.*

*Only a portion of proposals received annually for the development and production of learning materials can be funded. The financial assistance provided is adjusted according to market conditions, but also according to the merit of each proposal. Sometimes it is appropriate to adjust the scope of the proposal in addition to the assistance offered.*

### Materials From Other Provinces

*The Ministry will encourage the teaching staff of school boards specifically to recommend to the Learning Materials Fund, where appropriate, French-language learning materials from other provinces.*

*New inter-provincial partnerships will lead to a wider application of learning materials in Canadian schools. In particular, in the fall of 1993, the Council of Ministers of Education, Canada established a national work group to examine curriculum comparability and possible joint initiatives in curriculum development. The Ministry will be participating fully in these activities.*

### Monitoring

*Enhanced technology systems in support of the Learning Materials Fund have been in place since the Spring of 1993 and more are anticipated. In addition, changes to the operation of the Fund are under way. Both of these measures will provide greater efficiency in monitoring learning materials projects.*

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## ACCOUNTABILITY MEASURES

The *Education Act* and accompanying regulations are very detailed and cover such things as the establishment of school boards, school operating procedures, teacher and supervisory officer qualifications, French language and special education requirements, and funding and financial management. However, the Act also permits the Minister considerable flexibility to delegate responsibilities to boards and to require information reporting from them. Within this permissive framework, Ministry policy has favoured increased delegation of authority to boards to promote local autonomy and responsibility, but has demanded very little reporting about how well boards are achieving system objectives.

One important reason for this less intrusive stance is the way Ontario's education system is funded. Over the last decade the province's share of total school board operating expenditures has steadily declined from about 50 per cent in 1982 to about 40 per cent in 1992. In addition, there are several boards, primarily in Metro Toronto and representing some 15 per cent of all students, that receive no provincial support for operating expenditures because of the size of their local tax base.

Efforts by the Ministry's regional offices to determine whether school boards have adequate processes to ensure that Ministry curriculum is taught and learned are sporadic and inconsistent at best. Although two of six regions have tried to institute rigorous procedures, regional offices are concerned that lack of clear policy direction and recent downsizing will mean that these procedures will continue to be conducted sporadically and only when school boards agree to them.

Our concern is whether the Minister of Education and Training can adequately ensure more consistent quality in the education provided when the procedures necessary to ensure that the intended curriculum is taught and learned are largely delegated to boards. The Ministry has no effective system and very limited information for determining whether or not its education goals are being met.

We understand the Ministry's newly appointed Commission on Learning will be studying this issue in some depth.

## PROVINCIAL REVIEWS

The Ministry's primary means of monitoring and publicly reporting on the quality of education provided by school boards attempts to examine relationships between written, taught, and learned curriculum by administering a single-subject examination to a randomly selected sample of English and French schools. These provincial reviews are not as effective an accountability measure as they could be because they are not frequent enough, they provide information about an entire school board only if a board wishes to include more schools in the review, no reviews have been done below Grade 6, and follow-up of identified deficiencies has been weak.

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## ONTARIO ACADEMIC COURSE TEACHER IN-SERVICE PROGRAM REVIEWS

The Ministry's Ontario Academic Course Teacher In-Service Program (OACTIP) was designed to reduce variability in assessment practices among schools and improve examinations in final year courses for university-bound students. The program has encouraged better and more consistent standards for final year examinations and is generally well regarded by the secondary school teachers we interviewed. However, its usefulness as an accountability measure is limited because it only covers the 25 per cent of all students who are university-bound; there is no equivalent assessment of the 60 to 70 per cent of students' final grades not covered by OACTIP; and results are published in summary form and are difficult to interpret.

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### MONITORING BY BOARDS AND SCHOOLS

We found wide variation in the way the performance of students, schools, and boards was reported and a general weakness in the evaluation of teacher performance in the boards and schools we visited. Few conduct board-wide assessments or report any results publicly, report cards vary greatly in form and content, sometimes even among schools of the same board, and teachers generally receive formal evaluation by their principal only once every three to five years.

### ASSESSMENT OF LEARNING OUTCOMES

The Ministry is in the process of developing standards to assess whether students are progressing satisfactorily toward the learning outcomes stated in *The Common Curriculum*. Standards for mathematics up to the end of Grade 9 are in draft stage. Also, the Ministry has shown commitment to greater public accountability by planning to administer a uniform examination in reading and writing to Grade 9 students in the fall of 1993. A new "Comprehensive Achievement Profile" to be used by all schools is being designed for students in Grades 7 to 9 to bring greater uniformity to the assessment information and criteria available to students and parents.

Other provinces such as Alberta and British Columbia have designed two different types of testing to assess whether provincial curriculum-based standards are being achieved. Alberta reports publicly each fall on the results of these tests.

There are limitations to system-wide testing and risks associated with which and how results are reported. For example, it is difficult to devise fair and meaningful tests which cover all the knowledge, skills, and values contained in the learning outcomes. Also, reporting results without an appreciation of the factors contributing to them can be harmful and misleading. What is important to draw from system-wide testing is trends over time, systemic or geographic problems, and weaknesses and strengths in both curriculum and teaching methods. Taxpayers must have assurances that rigorous processes exist to encourage consistent quality in the curriculum taught, the assessment methods used, and the learning outcomes obtained.



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## RECOMMENDATIONS

The Ministry, in conjunction with its Commission on Learning, should study the entire accountability structure with a view to improving, province-wide, the consistency and quality of education. As a minimum, the Ministry should increase the scope of its monitoring mechanisms to better assess the extent to which Ministry-developed curriculum is taught and the expected learning outcomes are being achieved.

The Ministry should collect information about the various student and teacher assessment and reporting methods presently in use both in boards and outside the province and establish best practices for use by all boards and schools.

The Ministry should devise appropriate province-wide assessment tools for all core curriculum areas to reliably measure learned outcomes and initiate corrective action where needed. The experience of other jurisdictions may be of assistance.

## MINISTRY RESPONSE

*The Ministry recognizes the need to strengthen accountability measures in order to build public and parental confidence in our education system. Assessment of student achievement is one of the areas of focus of the Royal Commission on Learning.*

*A multi-year schedule of assessment activities is being developed and implemented to increase the scope of data collection and reporting on curriculum implementation and student achievement. For example, the Grade 9 Reading and Writing Test in 1993/94 will provide data to all school boards and all schools in the province; the School Achievement Indicators Program, sponsored by the CMEC, is now a permanent activity that has expanded to include national assessment of mathematics, language, and science on a three-year administration cycle; participation in international assessments such as the Third International Mathematics and Science Study (1995) is a high priority for the Ministry.*

*A compilation of best practices in student assessment is being developed along with a summary statement on Ministry assessment policy. This is a priority activity for the newly integrated curriculum and assessment functions within the Ministry.*

*The Ministry is developing assessment tools for mathematics that are linked to the provincial standards for Grades 3, 6, and 9. The Ontario Assessment Instrument pool, which contains instruments for many subject areas at several grade levels, is being made available on computer for easier access by teachers. The Ministry will continue to collect information on assessment programs in other jurisdictions.*

*The Ministry continues to promote effective teacher assessment which is the responsibility of the school boards that employ teachers.*

## TEACHER TRAINING

### TEACHER CERTIFICATION

The Ministry prescribes the requirement for teacher certification by Regulation under the *Education Act*. These requirements are broad and were last revised in 1978. University faculties of education are free to determine the curriculum content for teacher education



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within these broad guidelines. Our research and interviews with a variety of teachers and other educators revealed the following:

- Ontario has one of the lowest practical experience requirements in Canada. The minimum requirement is eight weeks; most Ontario university programs require eight to ten weeks. In contrast, other provinces such as British Columbia, New Brunswick, and Quebec require at least twelve weeks. Several western universities offer programs that exceed these minimum requirements. Countries such as Germany and Japan require from six months to two years under supervision of senior teachers.
- Teachers are not required to have an academic background in the subjects they teach, even for senior grades. Although teachers for Grades 7 and up must have an academic background in one or two teachable subjects, boards may require teachers to teach subjects in which they have no academic background. A 1989 provincial review of Grade 8 mathematics revealed that 60 per cent of mathematics teachers had not taken any mathematics courses during their undergraduate studies. While some elementary level teachers feel that an academic background in the areas they teach is not critical, at least one province and several countries require this.

3.07

### RECOMMENDATION

To improve the preparedness of new teachers, the Ministry should review its criteria for teacher certification to assess whether changes would assist in achieving expected learning outcomes.

### MINISTRY RESPONSE

*The Ministry of Education and Training believes that quality teacher education is essential to effective program delivery and student achievement, and fully supports this recommendation. The mandate of the Royal Commission on Learning includes teacher education. The Commission will be able to build on earlier reviews and the recent work of the Ministry and the Teacher Education Council, Ontario, which produced reports about different components of teacher education.*

*The merging of the former Ministries of Education, Colleges and Universities, and Skills Development into one ministry has brought together the Government's organizations with responsibility for teacher education. This will facilitate consultation with stakeholders and implementation of agreed upon changes to teacher certification.*

### IN-SERVICE TRAINING

Teachers obtain in-service training from a variety of sources including school board professional activity days and Ministry-funded "additional qualification" courses. Although some boards have begun to address the training necessary to implement the new Common Curriculum, the Ministry is not routinely involved in these efforts except in the North, and additional qualification courses do not yet address this recent initiative. A co-ordinated effort is needed to ensure that such a major new initiative is implemented effectively.

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## RECOMMENDATIONS

To ensure the Common Curriculum is implemented consistently and effectively, the Ministry should review additional qualification courses to determine the need for changes to address the Ministry's new initiatives.

The Ministry should also consider reserving a portion of each board's professional activity days to introduce new initiatives and materials to teachers in a prompt and cohesive manner.

## MINISTRY RESPONSE

*The Ministry, through a feedback mechanism which is part of the implementation of The Common Curriculum, Grades 1 to 9, will identify the in-service needs of teachers and determine the most appropriate method of addressing these needs. Further, the Ministry supports the need for a review of in-service teacher education including additional qualifications and recognizes that a more consistent and cost-effective approach to teacher in-service is required to address current needs.*

*The Ministry supports and encourages boards and their teachers to include provincial curriculum priorities in their professional development activities. Ministry assistance for innovative projects such as the Ontario Teachers' Federation "Creating a Culture of Change" initiative that supports the implementation of the Transition Years (Grades 7, 8 and 9) and the establishment of French-language Teacher Centres are examples of ways that we support boards in the effective introduction of new curriculum and support materials to their teachers.*

## TEACHING BROAD-BASED TECHNOLOGY

Our visits to schools and boards revealed that a lack of trained teachers is the most serious obstacle in implementing the Ministry's Broad-Based Technology Program. Ministry funding for such training has been limited thus far, yet new teaching skills are necessary to interact with business groups and to teach broader technology principles and problem-solving rather than specific skills. Prerequisites for becoming a technology teacher are also outdated given the new program expectations.

## RECOMMENDATION

The Ministry should include in the teacher training program the training of technology teachers in accordance with the requirements of the Broad- Based Technology curriculum.

## MINISTRY RESPONSE

*The Ministry agrees with this recommendation and is working closely with faculties of education to redesign the pre-service program so that it reflects the new focus on broad-based technology. The Ministry is also preparing a curriculum guide for Technological Education which will provide clearer indications about the in-service needs of teachers for the broad-based technology focus. The Ministry has responded to these needs by allocat-*

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ing 5 per cent of the five-year, \$60 million, Technological Education Program and Equipment Renewal Fund for teacher in-service.

## **AVAILABILITY OF FRENCH-LANGUAGE TEACHERS AND IN-SERVICE TRAINING**

There has been a chronic shortage of French-language teachers and turnover is as high as 50 percent in some areas of the province. More than 40 per cent of newly certified French-language teachers recruited over the last few years are from outside Ontario. This combined with the difficulty in providing cost-effective in-service training to geographically dispersed teachers can significantly affect the quality of education provided. The Ministry's French Language Consultative Services program (*Services Consultatifs de langue française*) is considered valuable by most French-language educators we interviewed but one third of French-language teachers we interviewed were not aware of the service.

### **RECOMMENDATION**

The Ministry should develop a strategy to ensure that all French-language schools and teachers have equitable access to services, including more consistent monitoring of consultants. Consideration should be given to producing an information package for French-language teachers informing them of the various services available to the French-speaking community in general and to French-language teachers in particular.

### **MINISTRY RESPONSE**

*The Ministry recognizes the need to promote services available to French-language schools and their teachers, and to monitor more consistently the services of Ministry consultants. In July 1993, the Ministry completed a formal review of French-Language Consultative Services and produced a plan of improvements which includes a marketing strategy to raise the profile and the awareness of regional consultative services among teachers, and improvements to the monitoring of regional consultative services.*



# Special Education

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Public education in Ontario is provided and delivered under the authority of the *Education Act*. Regarding special education, the Act states: "the Minister shall ensure that all exceptional children in Ontario have available to them appropriate special education programs and special education services." The Act defines an exceptional child as one whose behavioural, communicative, intellectual, or physical needs, or a combination of these, are such that the child may benefit from a special education program. There were approximately 160,500 exceptional pupils, which represents over 8 per cent of the total enrolment in Ontario schools in the 1992/93 school year. This statistic does not include blind or deaf children enrolled in provincial schools; provisions for these children were not included within the scope of this audit.

Legislation specifically addressing special education was introduced in 1980. Every board is required to provide, or enter into an agreement with another board to provide, in accordance with regulations, special education programs and services for its exceptional pupils. Over the next five years, school boards developed special education programs and services in accordance with this new legislation. During this period, the Ministry was involved to ensure that school boards complied with the legislation.

The Ministry has overall responsibility for the development of legislation, regulations, and guidelines for the provision of special education programs and services, and school boards are responsible for the provision of those programs and services. The boards are run by elected officials and are responsible for the administration of the schools within their jurisdictions. There are 170 school boards in the province.

Legislation requires each school board to prepare and submit biannually its special education plan to the Ministry and to ensure that its schools comply with the plan. Legislation also requires that each school board have in place a special education advisory committee. These committees are to be made up of board members and representatives of various advocacy groups concerned with special education. Boards are also required to form identification, placement, and review committees to identify exceptional students and their needs, and to make and review their placements. Parents are invited to attend this process to add their views. The final decisions regarding exceptional pupils are subject to parental consent. If the parents disagree with the committee, they have the option to appeal the decision. However, if the parents are in agreement with the decisions, and the needs of exceptional pupils are identified, boards are required to prepare individual education plans containing specific objectives and an outline of educational services to meet those needs.

Each school board may decide for itself how best to meet the needs of exceptional students. Currently, different school boards offer different programs and services. Some boards favour educating exceptional students more or less separately from other students while other boards prefer to integrate them into regular classrooms; most boards use some com-



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bination of the two approaches. The Ministry is encouraging greater integration of exceptional pupils into the regular classrooms.

For the year ended September 30, 1992, school boards incurred special education costs of at least \$1.3 billion. These costs (with the exception of costs for certain large metropolitan boards) are shared by the Ministry and the municipalities through the General Legislative Grant structure.

## OBJECTIVES AND SCOPE

Our objectives were to assess whether there were satisfactory procedures in place to determine compliance with special education legislation, regulation, and policies, and to measure and report on the effectiveness of special education programs and services. Specifically we assessed:

- Ministry procedures and guidelines for monitoring compliance by boards of education with the legislative requirements for providing special education; and
- Ministry efforts to evaluate both the degree to which programs and services are meeting the needs of exceptional students and the cost-effectiveness of those programs and services.

Our audit included visits to five of the six Ministry regional offices, eight school boards, and fifteen schools throughout Ontario. We interviewed educators and school board administrators to gather information about local special education programs, services, and training and support for teachers. During these visits we also reviewed procedures used by school boards to ensure appropriateness and consistency in identifying exceptional pupils.

We also spoke with representatives of various stakeholder and advocacy groups and contacted special education experts in Ontario and in various special education organizations outside the province.

## AUDIT OBSERVATIONS

The legislated responsibilities for the delivery of special education programs and services that meet the needs of all exceptional children in Ontario are fairly clear. However, the Ministry does not yet have satisfactory procedures in place to fulfil its legislated responsibility to ensure that all exceptional children in Ontario have available to them appropriate special education programs and services. More specifically:

- Ministry procedures are not adequate to ensure that school boards comply with various legislated, regulatory, or policy requirements; and
- procedures to evaluate the variety of special education programs and services offered by school boards were not adequate to determine whether these programs and services were the most appropriate and cost effective in meeting the needs of all exceptional pupils.

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## MONITORING FOR COMPLIANCE

### THE ROLE OF REGIONAL OFFICES

The role of the Ministry's six regional offices is to ensure that legislation and policies are communicated to and enforced by the school boards within their regions. Each regional office establishes its own procedures for accomplishing these goals but the main focus of procedures is on the biannual review of school board special education plans.

However, several factors have left regional offices poorly equipped to assess the appropriateness of these plans in meeting the needs of exceptional pupils:

- there are no Ministry guidelines for appropriate levels of service for the delivery of special education;
- the level of special education expertise available in regional offices varies but is particularly weak in Central Region where only one of 16 education officers has such expertise, yet all are expected to review the special education plans of some 50 school boards; and
- there is no consistent policy on the extent of follow-up action required when deficiencies in plans submitted have been identified.

### RECOMMENDATIONS

To provide a basis for assessing the quality of the boards' special education plans, the Ministry should work with boards to develop guidelines for the provision of special education programs and services for exceptional students, and should monitor whether school board special education plans follow those guidelines.

To ensure that boards comply with approved plans, the Ministry should require its regional offices to monitor the programs and services provided by school boards.

### MINISTRY RESPONSE

*The Ministry of Education and Training believes all exceptional students should have access to quality programs and services. We continue to work with school boards and other stakeholders to develop guidelines for the provision of special education programs and services. Regional office staff play a key role in monitoring the quality of these programs and services.*

## ASSESSING NEEDS AND PROVIDING SERVICES

### SPECIAL EDUCATION ADVISORY COMMITTEES

The *Education Act* requires that every school board establish a Special Education Advisory Committee (SEAC). The Act states that the committee "may make recommendations to the board in respect of any matter affecting the establishment and development of special education programs and services in respect of exceptional pupils of the board." Membership consists of representatives from the school board and advocacy groups concerned with special education.

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While all boards we visited had established SEACs, their involvement in planning special education programs and services varied considerably. Some were not aware of guidance on the role and expectations for SEACs available in the Provincial Parents' Association *Handbook for Members of Special Education Advisory Committees*.

### RECOMMENDATION

To ensure that all Special Education Advisory Committees (SEACs) serve the role intended, the Ministry should determine best practices for SEACs and ensure that these are communicated to school boards and SEAC members. If these correspond to the guidance provided by the Provincial Parents' Association *Handbook for Members of Special Education Advisory Committees*, the Ministry should consider overseeing the distribution of the *Handbook* to boards and SEACs.

### MINISTRY RESPONSE

*The Ministry of Education and Training, in consultation with the special education Provincial Parents' Association and others, will revise and distribute the Handbook for Members of Special Education Advisory Committees. The Handbook includes information on best practices for Special Education Advisory Committees. The Ministry of Education and Training will take a lead role in communicating this information to school boards and will work with the association to profile the revised document with Special Education Advisory Committee (SEAC) members.*

### DEFINING EXCEPTIONALITIES

The *Education Act* states that the Ministry shall "define exceptionalities of pupils, and prescribe classes, groups or categories of exceptional pupils, and require boards to employ such definitions or use such prescriptions as established."

Ministry definitions are based on the *Special Education Information Handbook*, 1984 but have not been updated since then. Our visits to boards and schools as well as the Ministry's own 1990 consultation process indicate a need to update these definitions to help ensure all exceptional students needs are consistently identified. We found inconsistencies in definitions used by boards to identify gifted children and noted board concerns that at least two exceptionalities are not covered by existing definitions.

### RECOMMENDATION

To facilitate board compliance with legislation and with the Ministry's expectation that boards will consistently identify all exceptional students, the Ministry should review and update its definitions or categories of exceptionalities and develop guidelines to help boards interpret the definitions.

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## MINISTRY RESPONSE

*Within the special education community the use of definitions is an issue. Some groups believe an emphasis on definitions and categories of exceptionalities might lead to inappropriate labelling of exceptional pupils to their detriment. Other groups believe definitions should be retained to assist in identifying the needs of exceptional pupils. Work will continue on updating the definitions and reviewing their appropriate use.*

## IDENTIFICATION, PLACEMENT, AND REVIEW COMMITTEE

Regulations require each board to establish one or more special education Identification, Placement, and Review Committees (IPRCs). These committees are established centrally at the board level and may also exist at the school level. Each IPRC has at least three board-appointed members, one of whom must be a principal or superintendent (or designate) within the system.

All school boards we visited had these committees. We were informed by school boards visited that in some cases, due to limited resources, the number of referrals of students to an IPRC for identification as exceptional is limited by the number of spaces available for exceptional pupils.

## EDUCATIONAL ASSESSMENTS

In practice, educational assessments are conducted prior to an IPRC referral. They can be in the form of tests or a review of a student's progress report. These assessments are usually conducted in conjunction with the regular classroom teacher by board-level resource teachers with training in special education assessments and programming.

We found that the level of support available to teachers for such tasks as the preparation of educational assessments and individual education plans for students varied significantly among the eight boards visited; from a high of one staff for every 59 pupils to a low of one staff for every 120 pupils.



School year 1991/1992								
BOARD	A	B	C	D	E	F	G	H
Average daily enrolment	70,000	93,000	25,000	26,000	11,000	8,000	14,000	15,000
Special education teachers providing direct instruction either in class or as resource teachers	427	701	102	126	81	33	96	101
Educational assistants	244	369	121	236	38	--	75	40
Support staff (centrally assigned special education staff such as itinerant teachers, assessment and programming teachers, resource teachers, and so on)	121	50	26	81	28	32	5	13
Superintendents and/or supervisory officers with special education responsibility	2	2	1	Part-time	1	1 plus part-time	Part-time	Part-time
Total support staff	794	1122	250	443	148	66	176	154
Total pupil pop. per support staff	88	83	100	59	74	120	79	97

At one school visited, six special education resource teachers completed individual education plans for approximately 200 exceptional pupils. At another school, individual education plans were not being maintained for all exceptional pupils, but only for a specific type of exceptionality because there were not enough staff to prepare plans for all the exceptional pupils.

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In these instances, because individual education plans were either not completed due to staff shortages or completed for large numbers of students by a small number of support staff, there is a possibility that the needs of the exceptional pupils will not be met in accordance with legislation.

## SPECIALIST ASSESSMENTS

The *Education Act* allows school boards to appoint psychologists and psychiatrists. In practice, boards also hire psychometrists or other health professionals to perform psychological or health assessments to assist in identifying needs and in formulating individual education plans.

We found that access to such expert support varied greatly in the eight boards visited as follows:

SCHOOL YEAR 1991/92								
BOARD	A	B	C	D	E	F	G	H
Avg. enrolment	70,000	93,000	25,000	26,000	11,000	8,000	14,000	15,000
# of specialists*	71	135	17	48	3	5	2	5
Pupils/specialist	986	689	1471	542	3667	1600	7000	3000

*\*Specialists include psychiatrists, psychologists, psychometrists, speech therapists, audiologists, occupational therapists, physiotherapists, and social workers.*

Specialist assessments conducted in the 1991/92 school year by boards we visited ranged from a high of one assessment for every eight pupils to a low of one assessment for every 2,500 pupils. Also, lengthy waits existed for speciality assessments in some boards. One board had established a maximum number for referrals for assessment for each of its schools. As soon as the schools reached their maximum number, they could not refer any more pupils for assessments.

## RECOMMENDATIONS

The Ministry should:

- review the existing specialist and non-specialist resource staff service levels at the school boards to ensure that they are adequate to address the needs of exceptional pupils;
- review existing practices for health and psychological assessments and consider guidelines for the frequency of such assessments; and
- examine cost-effective options for ensuring that all boards have timely access to adequate specialist assessment services. One option to consider is having the regional offices hire specialists to perform the assessments in underserved areas.

## MINISTRY RESPONSE

*The provision of effective health, treatment, and care services is a shared responsibility. To be successful, it requires full collaboration of government, local agencies, and school*

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*boards. The Ministry will gather and analyze information on school board resource staffing levels and existing practices. Finding cost-effective ways to provide appropriate services will be a priority of the Ministry in continuing to work with parents and the community, other ministries, agencies, school boards, federations, and associations.*

## EVALUATING PROGRAMS, SERVICES, AND COSTS

### EVALUATING PROGRAMS AND SERVICES

Although it is the responsibility of the boards to provide services and programs to meet the needs of exceptional students, it is the responsibility of the Ministry to ensure that the boards fulfil this obligation.

The Ministry has not independently evaluated any of the existing programs and services since the legislation for special education was first introduced. Some school boards have evaluated portions of their programs and services and passed along the reports to the Ministry's regional offices. One board's report stated that there were no system-wide criteria or mechanisms to measure program effectiveness in special education. The criteria for these evaluations have been established by the individual boards with little input from the Ministry. The Ministry's lack of involvement in these evaluations makes it difficult for the Ministry to identify effective or ineffective programs and services.

A Ministry-sponsored research project begun in 1990 to study the "policies, placements practices, and plans of selected Ontario School Boards" for two exceptionalities found that placement philosophies and policies varied greatly among 29 boards reviewed. The researchers also found that many boards did not indicate any specific evaluation procedures for assessing the progress of pupils with these exceptionalities.

The current diversity of services offered at the boards is illustrated by class size and proportions of regular to exceptional pupils. For instance, there were many special education classes which exceeded maximum class sizes allowed by regulation for self-contained special education classes. At one school we visited, ten of the thirteen segregated classes had more than the maximum number of pupils allowed. In fact, one class for autistic pupils had thirteen more pupils than regulations allowed.

At highly integrated schools, the proportion of regular to exceptional pupils in classrooms varies greatly. At one school we visited, we were told of a class of 19 pupils, 17 of whom were exceptional. In another school where there was only one Grade 6 class, the Grade 6 teacher started the year with 42 pupils, 4 of whom were exceptional. Some later restructuring in this school resulted in a class of 31 Grade 6 pupils, 12 of whom were exceptional. According to the school staff, even with the part-time help of a resource teacher, it would be difficult to meet the needs of so many pupils.

These examples again raise the question of whether the special education programs and services are effectively meeting the needs of exceptional pupils as required by the *Education Act*.

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## EVALUATING COSTS

The Ministry has also not performed an analysis to determine which programs and services are the most cost-effective in meeting various needs, yet costs vary considerably among the boards visited, as the following chart indicates:

1991 TOTAL EXPENDITURES PER PUPIL FOR SPECIAL EDUCATION								
<i>(based on average daily enrolment for all pupils as of September 1992)*</i>								
BOARD	A	B	C	D	E	F	G	H
Expenditure per pupil(\$)	470	687	634	793	626	419	227	484

*\*The cost comparison is based on all pupils because inconsistencies in the identification of exceptional pupils make statistics based on the population of exceptional pupils less reliable and potentially misleading.*

Also, staff reductions have occurred over the last two years in six of the eight boards visited. In the absence of information about the relative cost effectiveness of various programs and services, it is difficult to determine whether cost-cutting measures are having any detrimental impact on special education programs and services or whether less effective programs are being cut first.

If the Ministry and boards are to make useful policy regarding special education, they must have more information about which methods work and which ones do not, as well as information about the relative cost-effectiveness of those methods that work.

## RECOMMENDATION

To ensure that the Ministry can fulfil its legislated requirement to ensure that all exceptional children have available to them appropriate special education programs and services, the Ministry should:

- conduct or support and review independent studies of existing models to determine which ones would achieve this legislated objective most cost effectively; and
- distribute the results of Ministry, board, and external evaluations and studies to all school boards so that common concerns and best practices are identified and shared.

## MINISTRY RESPONSE

*The Ministry is committed to increasing opportunities for the integration of exceptional pupils into regular classrooms. We will work with our partners to identify and share current studies and information pertaining to best practices and cost-effective ways to deliver special education programs and services.*



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## SPECIAL EDUCATION TEACHER TRAINING

Based on our visits to school boards and schools, we found that the majority of teachers of special education classes held special education certificates. However, the majority of teachers interviewed who taught classes with both regular and exceptional pupils had not taken any post-certification courses dealing with special education unless in-service courses had been provided by their school boards.

Our review of the existing literature showed that successful integration of exceptional pupils into a regular classroom requires that the regular teacher be given adequate support, including both training and resource assistance such as special education resource teachers, and/or teaching assistants.

Specialized training is important to enable teachers to modify and implement curriculums to teach special education pupils effectively. Such training also helps teachers to recognize pupils who may need additional help from resource teachers or others. This was confirmed by our interviews with teachers who taught integrated classes.

Some teachers interviewed feel that training is not necessary if support is provided to them. However, as seen earlier, support to teachers varies and is decreasing at the boards visited.

### RECOMMENDATION

The Ministry should review requirements for special education training and support to ensure that boards can meet the needs of exceptional pupils.

### MINISTRY RESPONSE

*The Ministry of Education and Training will be reviewing requirements for special education training and support. This will include consideration of special education as a component of the pre-service teacher education program. We are pursuing this matter and the related in-service needs to practising teachers with appropriate stakeholders.*

## RELATED MATTERS

### COMPENSATORY EDUCATION GRANTS

The Ministry provides a special compensatory education grant to some school boards which have large numbers of students who are economically or socially disadvantaged and who are at risk of academic failure and dropout. This grant is intended to offset the additional costs of necessary special programs for such students. Students who come from these various backgrounds may be exceptional pupils. The total grants for 1992 and 1993 were approximately \$88 million and \$90 million, respectively.

Our visits revealed that the school boards do not separately identify these funds for the individual schools. The compensatory funds are usually grouped with the general operating funds. Since the funds are not separately identified, resource teachers and other ex-

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perts hired with this money cannot be specifically identified. Thus it is very difficult to determine whether these funds are spent for the purposes intended.

In fact, one board we visited allocated its resource teachers to schools based on a ratio of one resource teacher for every 250 pupils. This method does not take into consideration the composition of the pupils or the extent of special needs, which may vary among school populations.

## **RECOMMENDATION**

The Ministry should ensure that compensatory funds are being spent for the purposes intended.

## **MINISTRY RESPONSE**

*The Ministry is concerned that funds designated for special purposes such as compensatory education be used appropriately. Improved school board financial reporting procedures are being developed as part of the Education Finance Reform Project.*

## **GRANT FOR EDUCATION PROGRAMS IN CARE, TREATMENT, AND CORRECTIONAL FACILITIES**

The General Legislative Grants Regulations enable school boards providing education programs in care, treatment, and correctional facilities to receive full Ministry funding. These funds cover the full costs of the teachers and teacher aides involved in these programs. The funding is provided to ensure that a child's education does not suffer because of the need for care or treatment. In 1993, \$66.2 million was paid to school boards for these programs.

Care, treatment, and correctional facilities can enter into agreements with the local school boards to use the school premises to educate these pupils. However, these programs must contain an element of care and treatment. The Ministry approves and monitors all of these agreements because full funding is provided.

We did not perform specific audit work on these agreements; however, during a board visit, it was brought to our attention that it was questionable as to whether these funds were spent for the purposes intended.

At least two regional offices are concerned that agreements are not being complied with and are considering better procedures to monitor for compliance. One regional office had identified an instance of non-compliance which our school visit confirmed but action to rectify the problem had not yet been taken.

## **RECOMMENDATION**

All regional offices should check for compliance with the agreements for care, treatment, and correctional facilities' pupils to ensure that funds are spent for the purposes intended.

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## MINISTRY RESPONSE

*Ministry funding for the provision of education in government-approved care, treatment, and correctional facilities is provided on the understanding that the programs will be implemented in accordance with established guidelines. Such comprehensive guidelines are in place for the approval and monitoring of these programs. Strategies to strengthen accountability in this area are being developed as part of the Ministry's review of regional services.*

# 3.08

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# Information Technology Project at the Student Support Branch

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The main objective of the Ontario Student Assistance Program (OSAP) at the time of our audit was to provide grants and loans to academically qualified and financially needy Ontario residents to enable them to attend an approved post-secondary institution. The Student Support Branch of the former Ministry of Colleges and Universities administers eight different financial assistance programs to approximately 150,000 students annually, some 40 per cent of all Ontario post-secondary students.

Approximately 95 per cent of assistance provided in fiscal 1992/93 came from two programs—the Ontario Study Grant program with expenditures of \$280 million, and the Ontario Student Loans program which guaranteed loans of \$100 million made by the chartered banks. In addition, the Branch does the processing and administration for the Canada Student Loans program for a fee on behalf of the federal government.

## OBJECTIVES AND SCOPE

The Branch relocated from Toronto to Thunder Bay in August 1988 as part of the Northern Relocation Project. At that time, the computer processing of the student award applications was managed by the former Ministry of Education using computing resources provided by the former Ministry of Government Services. In 1990, the Branch proposed that they take over this function by transferring the existing computer programs located in Toronto to a new computer which was to be located in Thunder Bay together with the implementation of an integrated imaging system. They estimated the total cost of the project to be \$8.1 million over four years. Management Board approved the project in October 1990. In 1991, the Ministry competitively selected a vendor to design and manage the implementation of the proposed system.

Three objectives of our audit are to assess whether:

- the business case for the new system provided sufficient justification for its implementation;
- appropriate financial and project management systems had been implemented and were operating satisfactorily; and



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- the Ministry was measuring and reporting on the effectiveness of the system in improving the delivery of services and meeting project goals.

Our audit scope was restricted to a review of the project and its impact on the processing of award applications for the 1992/93 academic year. As the Ministry was in the process of revising the computer programs which calculate grants and loans, we did not audit the accuracy of the calculated grants and loans awarded to students. We did not contact students or the Financial Aid Offices located at educational institutions to assess how the system had affected them.

## AUDIT OBSERVATIONS

The project was successfully implemented on time and on budget, without requiring additional funds from Management Board. The new system has allowed the Branch to cope with significant growth in application volume and still reduce both the application processing time and its cost, with no increase in staff resources. Many of the methods used by the Ministry to select and acquire the new system were commendable "best practices" in information technology that should be considered by other government entities. Notwithstanding, we believe there are opportunities for operational efficiencies by a sharing of resources with the Office of the Registrar General as both operations are located in the same building and utilize imaging and similar communications technologies.

## SHARING RESOURCES

In the application to Management Board for project approval, the Ministry noted that "the Registrar General of the Ministry of Consumer and Commercial Relations is also part of the Northern Relocation Project and will be tenants in the same building in Thunder Bay as the Student Awards Branch. The Registrar General has acquired imaging and will be using this technology to support their business. The Student Support Branch and the Registrar General have agreed to co-operate in providing technical support as required."

There are several similarities between the Registrar General and the Student Support Branch. Both operations moved into the new building at around the same time and are on adjacent floors. Both have similar size staff complements and both experienced nearly total staff turnover because of the relocation. Each processes high volumes of mail—the Registrar General in providing birth certificates to people and the Branch in processing student applications. Both require frequent long-distance telephone service throughout the province to communicate with divisional registrars and educational institutions. Both had the need to recruit local staff and train them in advanced technology. Both were pioneers in imaging technology in the government, although the approaches were different.

However, we noted little co-operation or sharing between these two Branches. Each developed their own methods and practices. While difficult to quantify, it is likely the duplication of services was more costly than a joint effort. There are still some opportunities to share resources in the future. For instance, the Student Support Branch's computer could possibly be used as the host for redesigning the Vital Statistics system of the Registrar

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General, staff could be exchanged to cope with peak workloads which tend to fall in different periods, and investments in telephone and mailing equipment could be optimized.

## RECOMMENDATION

We recommend that the opportunity to share resources between Student Support Branch and the Registrar General be investigated to determine if operational efficiencies and cost reductions can be achieved.

## MANAGEMENT RESPONSE

*We accept this recommendation. Efficiencies could be gained in situations such as the co-located Student Support Branch and the Registrar General. Active support for and co-ordination of opportunities for sharing by central agencies would encourage individual ministries to overcome the historical "stand alone" mentality.*

## BUSINESS CASE

The OSAP system is used to determine and calculate the eligibility, level, and nature of financial assistance for students applying for financial assistance. This system also provides information which is used to calculate interest payable to banks on guaranteed loans, to verify student data, and to assist with the development of policy alternatives.

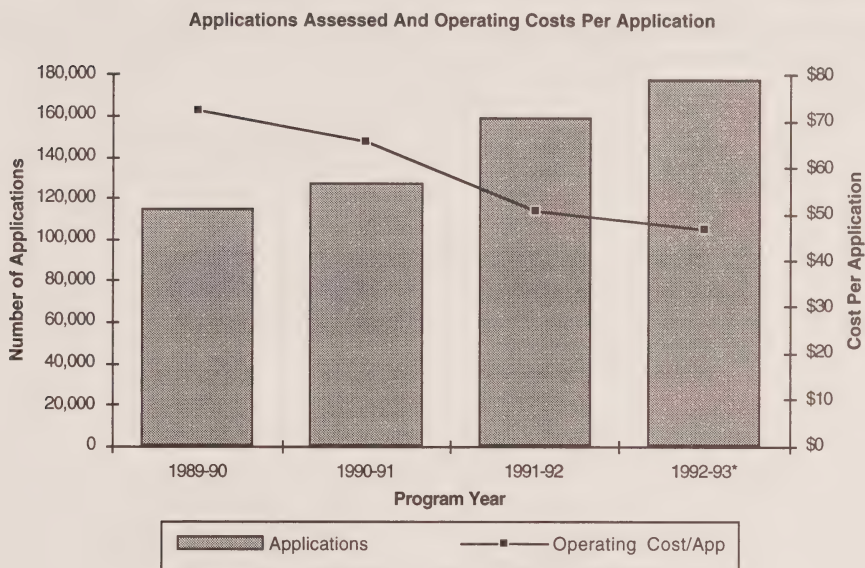
The student awards process begins when a student completes an application form detailing his or her financial position and academic plans. The award application forms are reviewed and approved by Financial Aid Offices at colleges and universities and sent to the Branch. The application information is keyed in, imaged, and processed by the system. Notification of the calculated award is then sent back to student through the Financial Aid Office. At the time of our audit, grant cheques were sent to the students via the Financial Aid Office. For those eligible for a loan, the loan guarantee confirmation is also sent to the Financial Aid Office and then given to the student who takes the confirmation to a bank to make the loan arrangements.

The information technology project involved two major computer systems: a system for assessing award eligibility and determining award amounts, and an imaging system for managing the various documents associated with a student's case. The imaging system was a major enhancement to the existing system. Imaging is a new and rapidly changing technology which is being introduced by a growing number of private and public sector organizations to improve their document management processes. This project was one of the first major uses of imaging technology at an Ontario government ministry and represented a major technological upgrade of a system which had been in place for a number of years.

We felt the information processing system selected was an appropriate solution to the Branch's business problems. Specifically, by storing an image of the original application, correspondence and other documents relating to each student, different staff can view images of the documents on a computer screen simultaneously rather than having to retrieve the actual paper documents. A number of the larger education institutions have

now installed the necessary computer equipment to access the awards database and imaging system and thereby have the capability to directly respond to student queries.

We compared operational statistics for the current program year with that of 1989/90 which was the year planning for the project began. Operating expenditures and direct labour costs have not increased despite an increase of over 50 per cent in the volume of applications. As illustrated in the following chart, the net result has been a 35 per cent decrease in the average cost of producing an award from \$72 to \$47.



The new system has also reduced the time to process an application within the Branch from an average of eight weeks to about three weeks. (In the case of a grant, additional time is required for the Ministry of Finance to produce the cheque and some time is needed by the Financial Aid Offices to process and distribute the cheques.) Improvement of the application form design has also made the form easier to complete and resulted in fewer processing errors. We concluded that the information technology project has provided significant operational improvements and benefits.

In addition, the Branch has initiated a number of other system changes and projects not specifically included in the approved project such as streamlined preparation of T4As, single page pre-printed applications sent to 100,000 returning students, on-line image access projects with major banks to simplify loan information transfer, and with the largest

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post secondary institutions, and a voice response system for handling institution inquiries. These actions should provide additional operational improvements in the future.

In the project proposal, the Ministry chose not to fundamentally change or re-engineer the business processes. Although they recognized that their system needed to be upgraded, they converted the existing computer programs used to process the student applications to run on their mid-range computer rather than re-design them in the initial phase. Now that the new system is up and running, the Ministry is re-writing many of its programs for future academic years both to meet the government's decision to provide loans-only assistance and to improve its business processes.

## **PROJECT MANAGEMENT**

We felt the design and acquisition phases of the project were very well managed and noted a number of "best practices" that are worthy of consideration by other ministries when implementing new technology:



Typical Problem	"Best Practices" Solution
Vendors underestimate costs; extra bill after contract awarded	Fixed price contract
Vendors prepare contract on their terms	Use legal counsel with expertise in information technology acquisition
Ministry requirements detailed in Request for Proposal; vendor solution detailed in contract; potential misinterpretations	RFP forms part of contract
Implementing leading-edge or new technology—performance uncertain	Contract for results, such as performance levels, not resources Use consultants with proven expertise
New system requires integration of multiple hardware and software products; vendors / Ministry disagree who is at fault when problems occur	Contract with lead vendor responsible for delivering a finished product
Vendors provide both the technology and the financing; non-competitive process for leasing; bundled lease rates; leasing terms not fully evaluated	Separate the financing decision from the technology decision Use competitive bid process and evaluate proposal on net present value, not just lowest monthly payment Use information technology acquisition financing experts
Ministries underestimate costs and overestimate benefits in project proposals to receive Management Board approvals; return for additional funding later	Use consultants to independently evaluate project proposal Fund any overruns with re-directed internal funds
Vendors underestimate time requirements; late projects	Contract for results; penalty clauses for non-performance

## BENEFITS ASSESSMENT

In the project application to Management Board, the Ministry summarized some of the specific results expected from the project, as is required by Management Board Directives. As illustrated in the following chart, we noted that a number of the expected benefits have been achieved.

Branch Planned Benefits	Our Assessment
Improved service to clients	<ul style="list-style-type: none"> <li>• reduced application processing time from eight weeks to three weeks</li> <li>• all users have access to files</li> <li>• eliminated a number of batch control documents</li> <li>• improved communication with Financial Aid Offices</li> </ul>
Increased administrative efficiency	<ul style="list-style-type: none"> <li>• exception cases reduced to around 15 per cent</li> <li>• errors prioritized by system</li> <li>• no backlog of uncorrected errors</li> <li>• more efficient records retention</li> </ul>
Facilities policy review and development	<ul style="list-style-type: none"> <li>• ad hoc reporting available</li> </ul>
Lower operating costs	<ul style="list-style-type: none"> <li>• reduced average cost of producing award by up to 35 per cent</li> </ul>
Enhanced security	<ul style="list-style-type: none"> <li>• still transporting documents</li> <li>• security still under development</li> <li>• no more reliance on other ministries</li> </ul>
Enhances the employment environment	<ul style="list-style-type: none"> <li>• employees were very satisfied with system and productivity has increased</li> </ul>
Technology enhancements	<ul style="list-style-type: none"> <li>• continue to outsource application data entry because of volume increase and cost-effectiveness</li> <li>• imaging implemented</li> <li>• pursuing Electronic Data Interchange with banks</li> <li>• pilot project with institutions for direct data entry</li> </ul>

The Directives also require both progress reporting and post-project evaluation, and assign responsibility to the Corporate Information Executive for implementing the strategic and operational plans and achieving the intended benefits. However, the Ministry has not formally monitored and reported on whether all the intended benefits have been achieved. For example, a reduction in application processing time and in the average cost of producing an award were key planned benefits, yet there is no formal measurement and reporting of the Ministry's success in meeting these targets.

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## RECOMMENDATION

We recommend the Branch periodically measure and report on its critical success factors to ensure that all expected benefits are being assessed.

## MANAGEMENT RESPONSE

*We agree that critical success factors would be monitored. Currently we monitor such items as turn-around time and error percentages which are reported regularly. The new system now retains a large number of statistics that will become valuable for comparisons in the future.*

# 3.09

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# Transfer Payments Under the Energy Development and Management Program

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The role of the Ministry of Environment and Energy is to develop policies, implement programs, and co-ordinate all energy-related activities of the Ontario government. Our audit was conducted at the former Ministry of Energy before the creation of the Ministry of Environment and Energy.

The expenditures of the former Ministry of Energy for the 1991/92 fiscal year were \$56.5 million.

The purpose of the Energy Development and Management Program is to expedite the development and introduction of energy technologies, products, and practices that increase the effectiveness and efficiency of energy management in the province. During the 1991/92 fiscal year, Program expenditures totalled approximately \$35.7 million, including transfer payments of \$16.9 million that provided financial assistance to over 450 projects.

Through the Energy Development and Management Program, transfer payments in the form of operating and capital grants were provided for energy research, conservation initiatives, industrial efficiency, and energy from waste projects. The Programs and Technology Division administers these payments under four sections: Energy Efficiency, Industry Programs, Building Energy Use, and Energy Research and Development.

The transfer payment programs are governed by the Ministry's New Energy Directions initiative, announced in the fall of 1990, which established energy efficiency and conservation as provincial priorities. During the 1991/92 fiscal year, the largest grants, accounting for 25 per cent of the grants from the Energy Development and Management Program, pertained to commitments made in previous years for nine Energy from Waste capital projects. Since 1990, no new Energy from Waste grants have been approved.

## OBJECTIVES AND SCOPE

The objectives of our audit were to assess:

- whether transfer payments were in accordance with the Ministry's legislated responsibilities;
- the adequacy of the extent to which grant recipients were held accountable; and



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- whether the administration of transfer payments was adequate.

We focused our audit on transfer payments administered under the Energy Development and Management Program.

We audited a representative sample of transfer payment expenditures incurred during the 1991/92 and 1992/93 fiscal years.

We also reviewed any relevant work by the Ministry's Internal Audit Branch and, where applicable, reduced our work accordingly.

## 3.10

### SUMMARY OF OBSERVATIONS COMPLIANCE WITH LEGISLATION

The energy responsibilities of the Ministry of Environment and Energy are governed by the *Ministry of Energy Act*, which specifies the duties, objectives, and authority of the Minister.

On the basis of our audit of the Ministry's Energy Development and Management transfer payment programs, we concluded that these activities were consistent with the objectives and within the authority prescribed in the *Ministry of Energy Act*. Specifically, each of the transfer payment programs we reviewed was designed to address one or more of the Ministry's legislated objectives.

### TRANSFER PAYMENT ACCOUNTABILITY

Transfer payment recipients should be held accountable for the management of public funds entrusted to them. This requires the establishment of an appropriate relationship between the Ministry and the recipient. This relationship should include:

- the setting of expectations (the objectives and results that the recipient is expected to achieve);
- contracting (entering into an agreement with the recipient); and
- reporting (timely reporting on the achievement of objectives and results).

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The following table summarizes the observations made regarding the accountability relationship for Energy Development and Management transfer payments:

Relationship Requirements	Our Observations
Setting expectations	Objectives were established; however, expected results were often vague or not verifiable.
Contracting with recipients	Agreements were in place with all recipients.
Reporting on achievement of objectives and results	The manner in which results were to be reported was not clearly established. While final reports indicated that projects were successful, the achievement of objectives and results was not always evident.

Final reports from grant recipients usually stated that the projects were successful in achieving their objectives. While Ministry staff accepted these results, for many cases it was unclear how the reported results had been measured. The benefits achieved from these grants were not evident. For instance:

- For a \$500,000 EnerSearch grant to develop a predictive mathematical model for furnace design, the final report to the Ministry stated that the total energy benefits were approximately \$3.5 to \$4 million. However, the report also stated that there was insufficient time available "for extensive study of practical applications, let alone the accumulation of a substantial record of benefits—such as energy savings—already achieved." There was no requirement that the energy savings be substantiated.

We contacted the grant recipients and determined that the reported savings were only estimates. They also indicated that they had not implemented the model since it was not fully developed, and they had not acquired the necessary computer equipment to run it;

- For a \$425,000 EnerSearch grant to develop, test, and demonstrate three prototype heating and melting systems for metal, it was reported that a 20 per cent energy savings had been achieved. However, there was no indication as to how this savings was calculated. Until we raised questions, Ministry staff accepted the energy savings claim without raising any questions; and
- One organization has been receiving Energy Education operating grants for a number of years to assist educators and students in upgrading their knowledge and skills on energy topics by providing energy curriculum, materials, and information. In the 1991/92 fiscal year, the grant amounted to approximately \$325,000 and covered approximately 80 per cent of the organization's budget.

The agreement between the Ministry and the organization defines the objective of the organization and the tasks to be performed, such as the number of newsletters to be produced. While the organization was required to provide reports detailing how the tasks were completed, there was no requirement to report on the extent that educators' and students' knowledge and skills were upgraded.

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The Ministry's monitoring of this organization was primarily through attendance at its board meetings. We believe that other controls are necessary. The organization's performance should be evaluated periodically. At a minimum, critical success factors should be established to evaluate the extent to which the organization has achieved its objectives and how these results have contributed to the Ministry's goals. Annual funding should depend on the results achieved.

The organization has now been requested to prepare a five-year business plan for Ministry approval and to implement measures to evaluate whether it has achieved its goals and objectives. We understand that this will be used to monitor the organization's operations and to determine future funding.

### RECOMMENDATION

An incomplete accountability relationship between the Ministry and grant recipients increases the risk that grants do not meet intended objectives. Appropriate accountability requirements should be included in the administration of all transfer payments. The expected results should be sufficiently clear that achievements can be readily and accurately measured. Ministry staff should be accountable for ensuring that these requirements are met.

### MINISTRY RESPONSE

*The Ministry will ensure that appropriate accountability requirements are presented to the applicants during the negotiations and stipulated in the legal agreements. Technical and financial guidelines are being developed for program officers to use during the term and at the conclusion of grants to ensure accountability. If results are difficult to measure, other critical success factors relevant to the program will be used.*

## REPORTING TRANSFER PAYMENT RESULTS

The Ministry, as required by the *Ministry of Energy Act*, submits an annual report to the Lieutenant Governor in Council.

While the report includes examples of individual energy and efficiency projects, it does not report the total benefits achieved. Reporting total benefits achieved by projects funded would be useful to the Legislature in assessing the economic and environmental savings achieved and the effectiveness of the transfer payment programs. This information could then be used to develop future energy directions for the Ministry.

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## RECOMMENDATION

In future annual reports, the Ministry should indicate in its Annual Report the total benefits achieved by grants and the extent to which they have contributed to the Ministry's overall objectives.

## MINISTRY RESPONSE

*Annual reports will be issued to comply with the legislation for Energy programs.*

## ADMINISTRATION OF TRANSFER PAYMENTS

During the 1991/92 and 1992/93 fiscal years, operating and capital grants were available under 13 different energy programs. Depending on the program under which the application is made, grants varied from 10 to 100 per cent of a project's eligible costs.

The following chart illustrates our assessment of the Ministry's process for approving and monitoring grants.

Ministry Process	Our Observations
Review and approval of applications	Grants were provided only for projects that met the Ministry's energy objectives.
	Funding criteria were lacking or reviews were not sufficiently thorough to ensure equitable treatment of grant applicants.
Grant conditions	In some cases, grant conditions were incomplete or were not enforced.  Most grants did not contain provisions entitling the Ministry to reimbursement under certain circumstances, such as when funded projects are sold for large profits within a stated period of time.  Eligible expenses need to be clarified to ensure only appropriate expenses are claimed.
Monitoring of projects	Technical aspects of projects were adequately monitored.
	There was little commitment by the Ministry to ensure project costs were accurate.

The following examples illustrate the problems associated with these deficiencies:

- for one project, the agreement allowed for annual salaries of \$67,500 for engineers and \$42,000 for technicians. During our review of the company's accounting records, we confirmed that these salaries were fairly representative of the actual amounts paid. However, we also noted that the same company received another more recent



EnerSearch grant which allowed \$65 per hour, or approximately \$125,000 annually, for engineers and \$52 per hour, or approximately \$90,000 annually, for technicians. There were no explanations requested to justify these differences;

- in the 1991/92 fiscal year, the Ministry initiated a pilot project in three communities to encourage energy efficiency. The three communities were provided \$250,000, \$500,000, and \$600,000 respectively in the first year of a three-year commitment by the Ministry; While we were satisfied with the process used to select the pilot communities, there were no guidelines as to how funds were to be allocated. We were advised that the amounts were negotiated with each community based on the activities each suggested. However, funding criteria are needed to ensure that communities and proposed activities are assessed fairly. A formalized process is required to ensure that standardized criteria are used in reviewing each application.
- a company received a \$3.2 million Energy from Waste grant for one project and \$3 million in funding for a second project. The company sold the first project for \$126.5 million and recorded a gain on sale of \$43.4 million. The second project was sold for \$49 million and recorded a gain on sale of \$11.6 million.

Since both projects were sold around their completion dates, the amount of profit earned may have justified some reimbursement to the Ministry.

Another company received \$3.4 million in grants over a three-year period. During the year in which the final grant payment of \$1.4 million was made, the company paid a \$500,000 dividend to its shareholders. At the time, the company had incurred operating losses and the project was entirely financed with debt secured by the project. There was no evidence of external equity in the project that could justify this dividend;

- one organization received Ministry grants totalling approximately \$815,000 between April 1989 and July 1992. During that period, over \$100,000 had not been spent within the approved year.

We were advised that, without authority to do so, the Ministry representative permitted the surplus funds and related tasks to be carried forward. For example, for the year ended July 31, 1992, \$26,500 from the grant was carried forward to the following year for uncompleted tasks; and

- for most grants an audited statement was not required. Where they were required, they were not always obtained. For one completed project where a final actual cost and revenue summary was required, the grant recipient only provided a summary of the original estimated costs.

The Ministry representative advised us that actual costs had not been previously requested because the company could consider these to be confidential. However, since the Ministry's contribution to the project was dependent on actual costs, this information should have been obtained.

For another project which received a \$425,000 grant based on estimated eligible costs of \$1.4 million, the final report only included an estimate of actual project costs. Although required, audited statements were not supplied nor had they been requested by the Ministry.

Based on our concerns, the Ministry requested the recipient to obtain an independent audit of project costs and revenues.

Without requirements for independently audited financial information, or regular spot checks by Ministry staff, there is no assurance that costs claimed are valid, accurate, reasonable, and eligible for reimbursement.

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## RECOMMENDATION

To ensure that proposals are assessed fairly, appropriate criteria and guidelines should be established for evaluating requests for all types of grants.

## MINISTRY RESPONSE

*It should be noted that pilots are often used to establish the process and criteria for new programs and to learn how best to organize, administer, implement, and evaluate these programs. This was the case in the Communities Program referenced in the report. Development of client database is being explored to facilitate the review and scrutiny of previous funding and the consistency of information provided.*

## RECOMMENDATION

Agreements with recipients should include provisions which under certain conditions entitle the Ministry to the reimbursement of grants. Where these conditions exist, they should be enforced by the Ministry.

## MINISTRY RESPONSE

*Future agreements will include the conditions entitling the Ministry to reimbursement of grants, and these will be enforced.*

## RECOMMENDATION

To ensure that funding is based on actual costs incurred, recipients of large grants should be required to submit audited financial information on project costs and revenues. The Division should be provided with appropriate staff resources to perform meaningful financial analyses of projects.

## MINISTRY RESPONSE

*The terms and conditions in agreements involving large grants will provide for submission of appropriate audited financial statements prior to payment of the final grant installment. The integration of the two Ministries in the current fiscal year will provide access to increased financial and analytical resources and establish better links with the Ministry management process.*

# 3.11 Ontario Insurance Commission

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The Ontario Insurance Commission works to build public confidence in the insurance industry through a variety of regulatory activities. The Commission has administrative responsibility for several pieces of legislation, among them the *Insurance Act* and the *Compulsory Automobile Insurance Act*.

The Commission is involved in the following major activities:

- monitoring industry and company performance to ensure solvency and other operational risks are minimized;
- attempting to preserve high standards of industry conduct;
- licensing insurance companies, agents and adjusters;
- providing marketplace information; and
- attempting to resolve consumer complaints.

For automobile insurance, the Commission also regulates insurance premium levels and risk classifications and provides a formal dispute resolution mechanism for bodily injury claims.

Commission expenditures were \$15 million in 1992/93. Revenues of \$15 million were collected over the same period.

## OBJECTIVE AND SCOPE

Our objective was to assess whether the Commission adequately and in a cost-effective manner monitors the operations of Ontario insurers and ensures compliance with legislation, industry solvency, and consumer protection.

The scope of our audit covered all of the major activities of the Commission.

## AUDIT OBSERVATIONS

We concluded that overall, the Commission satisfactorily regulates Ontario's insurers, although improvements could be implemented in some operations. We have made recom-

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mendations for improvements in dealing with internal administrative matters and the Commission is committed to satisfactory corrective action, on which we will follow up. However there is one item which we would like to bring to the attention of the Legislative Assembly, since it may require legislative action.

## CORPORATE LICENSING

The Corporate Licensing Branch licenses all insurance companies operating in Ontario. Once licensed, all companies must file an annual report with the Branch and include their audited financial statements, an actuarial report, and other information regarding their operations. The Branch maintains much of this data on financial and operational databases.

## UNLICENSED INSURERS

Under the *Registered Insurance Brokers Act* (RIBA) and its Regulations, insurance brokers are self-regulated through the Registered Insurance Brokers of Ontario (RIBO). This legislation allows brokers to place insurance with insurance companies not licensed in Ontario in the event that the required insurance is not available, or cannot be obtained at reasonable rates from insurance companies licensed in Ontario, and providing certain disclosures are made to the customer. In addition, the legislation requires brokers to provide the Superintendent of Insurance on a quarterly basis with information on any insurance placed with unlicensed insurers and to collect a premium tax and remit this tax to the Treasurer of Ontario (Ministry of Finance). In practice this tax has been remitted through the Commission. The tax varies from 2 per cent to 3.5 per cent of the premium depending on the type of insurance sold.

The brokers remit upwards of \$300,000 annually in premium taxes on unlicensed business. However, there is not a co-ordinated system in place to ensure that all tax owing is collected. This has been identified by the Commission and its predecessor as a concern since 1988. The amount of unlicensed business actually written cannot be determined precisely. However, a Commission draft report on the issue indicates that unlicensed insurance could possibly account for 10 per cent of liability insurance, or about \$2 million annually in uncollected premium taxes.

We were informed that the Ministry has been reviewing the problem and acknowledge that there are jurisdictional considerations in addressing this issue, since as mentioned above, the Commission has limited regulatory power over insurance brokers. Legislative changes may be required for an effective solution.

## RECOMMENDATION

The Commission, in consultation with the Ministry of Finance and the RIBO, should explore methods of developing an effective system for the collection and reporting of premium taxes on insurance placed with unlicensed insurers.

## MANAGEMENT RESPONSE

*Agreed. The Ontario Insurance Commission will initiate discussions with the Ministry of Finance as practicable.*



# Ontario Health Insurance Plan

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The Ontario Health Insurance Plan was established under the *Health Insurance Act*. The Plan pays for insured services rendered by physicians, practitioners (for example, dentists and chiropractors), commercial laboratories, and other diagnostic and therapeutic facilities (health care providers) to residents of Ontario. The Plan also pays for medical and hospital treatment provided in other provinces and outside of Canada to residents of Ontario.

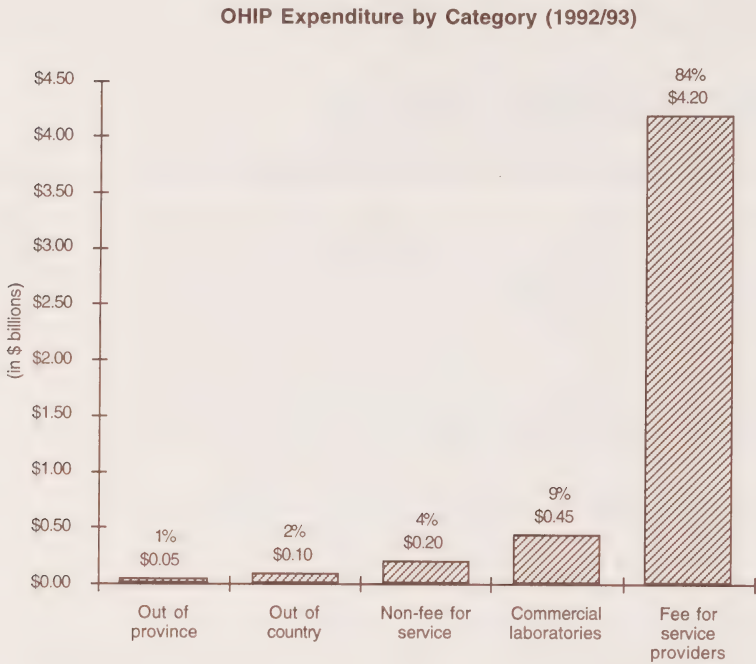
The Plan is administered by two groups of the Ministry: the Corporate Management and Support Group and the Health System Management Group. The Assistant Deputy Minister of the former group is the General Manager for the Plan and is responsible under the Act for the overall administration of the Plan.

The Claims Payment Operations of the Corporate Management and Support Group is responsible for registering eligible Ontario residents and processing medical claims submitted by health care providers. Approximately 125 million claims are processed annually by the Plan's nine district offices located throughout the province. On average, this represents approximately one claim per month for each citizen of Ontario.

The Provider Services Branch of the Health System Management Group is responsible for providing specialized and consultative services for claims submitted to the Plan, maintaining a registry of all health care providers who bill the Plan, and verifying that claims are for insured services performed in accordance with accepted professional standards and practices.

In the 1992/93 fiscal year, the Plan paid approximately \$5 billion for medical services rendered by health care providers. The comparable expenditure for the prior year was \$5.3 billion.

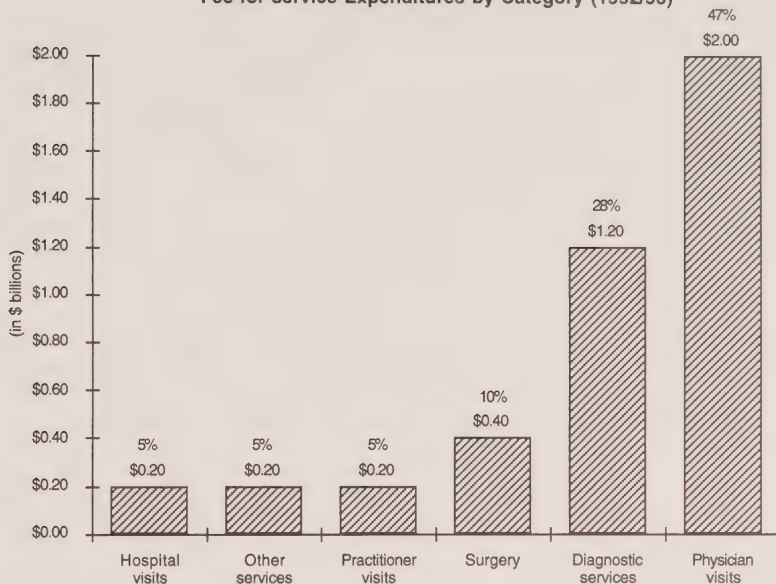
A breakdown of the 1992/93 expenditure by category of expenditure is shown on the following chart.



*Source: Ministry of Health*

As the chart indicates, payments to fee-for-service health care providers represent 84 per cent of the total expenditure. The relative cost of these services is shown on the following chart.

Fee-for-service Expenditures by Category (1992/93)



Source: Ministry of Health

## OBJECTIVE AND SCOPE

Our audit objective was to assess compliance with legislation and administrative policies and the adequacy of internal controls pertaining to the processing and payment of claims.

The scope of our audit focused on fee-for-service payments to health care providers and commercial laboratories. This represents approximately \$4.7 billion or 93 per cent of all payments made.

Our audit included a review of any relevant work by the Ministry's Audit Branch and visits to five district offices responsible for processing claims totalling approximately \$2.9 billion. Our review focused on the claims processed and paid during the 1992/1993 fiscal year.

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# AUDIT OBSERVATIONS

## MEDICAL REVIEW COMMITTEE

Under Section 18 of the *Health Insurance Act*, the General Manager is required to refer any matter in respect of insured services rendered by a physician to the Medical Review Committee, where it appears on reasonable grounds that:

- all or part of the insured services were not in fact rendered;
- all or part of such services were not medically necessary;
- all or part of such services were not provided in accordance with accepted professional standards and practice; or
- the nature of the services is misrepresented.

The Medical Review Committee is a committee of the College of Physicians and Surgeons established under the *Health Insurance Act*. The Act requires that the committee consist of no more than six members appointed by the Minister from persons nominated by the College, and two members who are not physicians or practitioners, appointed by the Minister.

The Medical Review Committee is required by the Act to make recommendations to the General Manager on any matter referred to it under Section 18 of the Act.

### REFERRALS TO MRC

The Chief Medical Consultant of the Provider Services Branch is responsible for reviewing the top 475 physicians by speciality identified by the Physician Monitoring System as having unusual billing patterns. After reviewing the computer profiles summarizing the services paid for these physicians, the consultant recommends to the General Manager those physicians to be referred to the Medical Review Committee (MRC). Of the 475 physicians reviewed for the 1990/91 fiscal year, 41 or less than 10 per cent were referred to the MRC. Similar results were noted in the prior year.

We found that the procedures for recommending referrals to the MRC were less than satisfactory.

- In our 1990 audit we commented that there were no written guidelines for determining when a physician should be referred to the MRC. The same situation existed during our current audit.
- By only looking at the top 475 physicians, the Chief Medical Consultant may not scrutinize many potentially undesirable patterns of practice.
- Brief comments on file from the consultant outlined the reasons for not recommending 434 of the 475 physicians for referral to the MRC. However, there was no evidence that these comments had been reviewed and approved by senior management of the Branch.
- Comments indicated that 60 of the 434 physicians were not recommended because of previous referrals and recoveries made. Of the 60 physicians, 50 had also been identified in the previous years but no referral was made for the same reason. For example, one physician billed approximately \$500,000 in each of the past two years, while the annual average for his peers was \$200,000.



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- Comments also indicated that 70 of the 434 physicians were not recommended because previous referrals were awaiting recommendations of the MRC.

Where there is a recurrence of the same behaviour by a physician, the only recourse the General Manager has is a re-referral to the MRC. However, other provinces have sanctions available, not just a simple repayment of claims if the physician is referred to the MRC.

In one province, a health care provider's right to bill the insurer directly can be removed where he or she habitually claims for services that were not medically necessary. In another province, if a health care provider's pattern of practice of billing is determined to be an unjustifiable departure from other providers in the provider's category, the provider can be ordered to adopt an appropriate practice or billing. Failure to comply with the order may result in the provider's right to bill the insurer directly being removed or even in the complete exclusion from billing the insurer for a period of time.

## RECOMMENDATION

Written instructions should be established to indicate when referrals are appropriate and management should ensure that they are consistently followed.

## MINISTRY RESPONSE

*Criteria used in preparing referrals to the Medical Review Committee will be prepared for management approval in early 1994. Three levels of management currently review all referrals and this practice will be continued.*

## RECOMMENDATIONS OF THE MRC

In our 1990 audit report, we commented that there were 130 cases pending MRC recommendations and the average length of time between a referral and a recommendation was 20.5 months. The Ministry stated in its response that it has been carrying out an assessment of the review process and consideration was being given to increasing membership of the MRC which would require an amendment to the *Health Insurance Act*. On June 14, 1993 a Bill was introduced in the Legislature to remove the statutory limitation in the Act on the number of members on the MRC.

The average length of time between a referral and a recommendation has currently increased to 32 months. As of April 30, 1993, there were 156 cases awaiting a hearing.

Of the 30 recommendations made for 1992/93 by the MRC, 25 recommended recovery action while five recommended that no adjustment was necessary. Where recovery action is decided, the physician concerned may appeal the decision to the Health Services Appeal Board (HSAB). As at March 31, 1993, 27 cases had been appealed to the HSAB.

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Where recoveries are recommended, collection begins immediately and physicians are requested to make repayments over a maximum of two years. Where a physician has filed an appeal before the HSAB, the Ministry may reduce the monthly payments until the HSAB has reached a decision. Interest is charged on recoverable amounts one year after the General Manager's decision. For the three fiscal years, ending March 31, 1993 approximately \$6.8 million was recoverable from 123 physicians as a result of MRC recommendations. During the same period the Ministry collected \$3.1 million. As at March 31, 1993 the amount owed to the Ministry by physicians was \$4.7 million.

Our review and tests of the procedures followed to collect monies, once they were deemed recoverable, from physicians did not reveal any significant deficiencies.

The length of the process involved, the failure to charge interest from the date of the overservicing, and the lack of sanctions means that misusers can continue their misuse and others might be tempted to misuse the system.

## RECOMMENDATION

To deter misuse of the system by health care providers, the Ministry should consider sanctions against health care providers whose patterns of practice continue to be undesirable.

## MINISTRY RESPONSE

*The Ministry agrees and believes legislative amendments would provide additional sanctions against providers with undesirable/unacceptable billing practices. Legislative and other policy changes are under consideration.*

*Bill 50 contains amendments to the Health Insurance Act that will expand the number of members of the Medical Review Committee. This expansion will permit the review committee to handle a larger number of cases.*

*The Ministry will be utilizing its new Special Investigation Unit staff to directly investigate and expedite prosecution of suspected providers' fraud cases.*

## PARAMETERS OF PRACTICE

A physician uses professional judgment to determine whether medical procedures are necessary and which procedure or procedures to perform. Currently, there are no province-wide standards or guidelines of practice for most medical procedures (parameters of practice). The only test is whether other physicians faced with the same or similar situation would perform the same procedures. Parameters of practice are important because they assist in identifying and reducing inappropriate or unnecessary medical procedures.

In response to our 1990 report, the Ministry indicated that the College of Physicians and Surgeons of Ontario had been funded by the Ministry to develop immediately a number of parameters of practice for Independent Health Care Facilities such as diagnostic clinics outside of hospitals.

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At the time of our current audit, some clinical practice parameters had been developed and the development of others was on-going.

In 1991, the legislature passed the *Regulated Health Professions Act*. This Act has not yet been proclaimed and consequently is not in force. However, after it is proclaimed, all self-governing colleges of health professions must develop quality assurance programs within three years. These quality assurance programs will address the effectiveness and appropriateness of treatments and monitor the continuing competence of members. Furthermore, the Act gives the governing bodies of the various health professions the authority to make regulations prescribing standards of practice.

In 1992, the Ministry of Health and the Ontario Medical Association established the Institute for Clinical Evaluation Sciences (ICES). ICES is looking at among other things, the rates of medical procedures being performed, lengths of hospital stay, and drugs being used. It will attempt to determine the reasons for variations in procedures and treatments being used. More than 50 projects are in progress, for example, one project is looking at the differences in the rates of certain types of surgery such as hysterectomies and appendectomies in different parts of Ontario.

Based on this research, the Institute will make recommendations to the Joint Management Committee of the Ministry and the OMA aimed at improving the efficiency, quality, and accessibility of medical services. The eventual results may include guidelines for physicians and public education campaigns.

## RECOMMENDATION

To improve patient care and to ensure that limited financial resources are spent as appropriately as possible, the Ministry should continue its efforts to facilitate the development of parameters of practice in the health care professions.

## MINISTRY RESPONSE

*The Ministry agrees with this recommendation and will continue its efforts to facilitate the development of parameters of practice in the health care professions. The Ministry has demonstrated this commitment through the formation of the Institute for Clinical Evaluation Sciences under the direction of the Joint Management Committee and will continue to follow through on getting proclamation of the Regulated Health Professions Act which is to provide the basis for standards of practice in relation to quality assurance.*

*Other measures taken include the introduction of the Independent Health Facilities Act, which incorporates a quality assurance program, and the provision of Ministry funding to the College of Physicians and Surgeons of Ontario (CPSO) to develop a number of parameters of practice. The CPSO has established practice guidelines with the Society of Obstetricians and Gynaecologists of Canada with respect to Caesarean section guidelines. There have also been guidelines published for thyroid function screening as well as cholesterol testing. The CPSO has been contracted to develop standards of practice for independent health facilities.*



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*The Ministry has initiated a Monitoring and Control Project which is to include a review of monitoring and control measures that can be implemented to ensure providers work within defined parameters of practice.*

## **INTERNAL CONTROLS**

In the 1992/93 fiscal year, 77 per cent of the medical claims received by the district offices were in Machine Readable Input (MRI) such as diskettes. The balance was on claim cards. MRI requires minimal manual input and is loaded directly onto the Plan's computer system. Information contained on claim cards must be manually keypunched and entered onto the system.

Claims submitted to the Plan contain the physician's registration number, the patient's health card number, date of birth, gender, the service date, the fee schedule code for services rendered, and the fee billed. The Plan's computer system matches the information contained on the claim to the Registered Persons Database, the Health Resources Register, the Fee Schedule Master, and Medical Rules.

Claims that fail to meet these system checks are rejected from the system and are either returned to the health care provider or corrected by district office staff and resubmitted to the system. In the 1992/93 fiscal year, 8 per cent of the claims received by the Plan were rejected by the system. Of these, 3 per cent were manually assessed and resubmitted by the district offices to the system. The remaining 5 per cent were returned to health care providers for corrections.

Under section 18 of the *Health Insurance Act*, the General Manager is required to refer matters of concern in respect of insured services rendered by a physician or a practitioner to the Medical Review Committee or a Practitioner Review Committee.

The Verification Letters System and the Physicians' Monitoring System are the means by which the Ministry has attempted to address the above statutory requirement. In addition, the Ministry is assisting in the development of parameters of practice to identify and reduce inappropriate or unnecessary medical procedures.

## **MANUAL CLAIMS CORRECTIONS**

During the 1992/93 fiscal year, 10.9 million claims totalling approximately \$554.5 million were rejected by the system for manual assessment. Forty-four per cent of these claims had error conditions that related to the Schedule of Benefits or Medical Rules. The majority of these were complex claims such as those containing multiple surgical procedures on the same service date. The remaining claims had error conditions such as invalid health card numbers or incorrect health care provider numbers.

Rejected claims are directed to the On-line Claims Correction System (OCCS) where they are assessed by claims clerks at district offices and then resubmitted to the system. At March 31, 1993, the Plan employed approximately 240 claims clerks.

Clerks have the authority and responsibility to select the appropriate corrective action for each rejected claim, including identifying claims which should be referred to the adjudication staff (physicians and assessment officers who have a higher level of expertise).



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The OCCS allows clerks to take the following actions with respect to rejected claims:

- increase or decrease the approved fee assigned by the system;
- select an assessment or “by-pass” code, which will instruct the system to by-pass one or more of the computer checks (eligibility, fee schedule, and medical rules) when the claim is resubmitted; and
- change any of the information submitted by the health care provider such as the service code, number of services or fee billed.

### CONTROLS OVER CORRECTIONS

Since such wide-ranging authority has been assigned to claims clerks, an effective process should be in place to get timely assurance that the work of clerks is performed in a controlled way and that clerks exercise their autonomy responsibly. For example, to meet processing deadlines, clerks may fail to take the time necessary to adequately investigate a claim before making a decision regarding it or select a stronger assessment code than necessary either in haste or in order to increase the chance that the claim will not be rejected another time. As well, clerks may fail to refer claims to adjudication staff.

We found that satisfactory procedures were not in place to ensure appropriate and consistent action is taken in response to rejected claims.

- Two monthly reports summarizing corrective actions taken on rejected claims are generally not reviewed. These reports could reveal inappropriate or inconsistent actions across district offices.

One of these reports entitled *Financial Analysis of OCCS Activity* shows the volume and value of rejected claims by error condition for each district office. The report summarizes the corrective action taken in response to each error condition, for example, the number of times clerks reduced, increased, or left unchanged the approved amount assigned by the system.

This report showed that in the 1992/93 fiscal year, approved amounts were left unchanged for 75 per cent of rejected items, decreased for eight per cent of rejected items and increased for two per cent of rejected items. The remaining 15 per cent were returned to health care providers. We noted that clerks at eight of the nine district offices reduced the total value of the rejected claims by five to 19 per cent from the approved amount. In the remaining district office, the value of rejected claims was increased by 12 per cent.

The other report, entitled the *Assessment Code Usage Report*, indicates the number of claims on which each by-pass code was used as well as the value of items processed with by-pass codes for each district office. By-pass codes were used to process approximately 30 per cent of rejected claims totalling about \$170 million for the 1992/93 fiscal year. This report would provide more useful information on the appropriate use of by-pass codes if it indicated the error conditions for which each was used.

- Established policies require that rejected claims with certain error conditions, for example, those for which there is no pre-established fee in the Schedule of Benefits, be referred for adjudication. Our analysis of claims rejected during the 1992/93 fiscal year indicated that approximately four per cent should have been referred for adjudication. However, the extent to which the policies were followed and other referrals were made could not be determined since information on the nature and number of claims referred was generally not maintained by the five district offices we visited.

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We noted that at two district offices where the volume of referrals had been monitored over a limited period of time, fewer than one per cent of rejected claims had been referred for adjudication.

- No audit trail exists to document changes made to claims data submitted by health care providers. The OCCS permits original claims data to be changed in order to allow clerks to correct any keypunch errors on manual claims; however, clerks may change data on MRI as well as manual claims.
- Only one of five district offices we visited could identify the clerk responsible for the correction of a particular claim. Without this information, clerks cannot be held accountable for their work, nor can training be directed to individuals responsible for inappropriate corrective actions.

## RECOMMENDATIONS

To obtain assurance that appropriate and consistent corrective action is taken on rejected claims:

- reports summarizing corrections activity should be reviewed on a regular and timely basis and all significant deviations should be promptly investigated;
- information on the nature and number of claims referred for adjudication should be maintained;
- an audit trail should be established to record changes made on the On-line Claims Correction System to original claims data submitted by health care providers; and
- the identity of the clerk responsible for any changes made on the On-line Claims Correction System should be determinable.

## MINISTRY RESPONSE

*Procedures will be put in place before the end of the year to improve operational controls over on-line claims corrections including regular review of monthly reports.*

*Other changes to the On-line Claims Correction System recommended by the Provincial Auditor will require system enhancements. The current system was implemented a decade ago and requires updating. A claims project is under way with the mandate of re-designing the claims processing system. The On-line Claims Correction System has been identified as an area that requires systems changes. The specific concerns of the Provincial Auditor will be incorporated into the project.*

## FEE SCHEDULE MASTER AND MEDICAL RULES

The Fee Schedule Master contains over 5,000 types of medical services that are considered to be insured under the Act. It also contains the fee payable for each service. The insured services and corresponding fees are determined through negotiations between the Ministry and the associations representing the various health care providers. The largest health care provider association is the Ontario Medical Association which annually negotiates fees and services on behalf of approximately 20,000 physicians registered with the Plan. All services and fees are approved by regulation as required by the Act.

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The service codes listed on the Fee Schedule Master detail payment information for each code. This payment information includes reference to Medical Rules which may impact on the payment of each service code. The application of a rule will cause one of the following actions:

- rejection of a claim for review by an assessment clerk;
- disallowances or reduction of the amount claimed; or
- allowing up to the fee listed in the Fee Schedule Master.

At the time of our audit, there were 132 medical rules in the system. According to Ministry records, approximately \$175 million was disallowed by medical rules during the 1992/93 fiscal year. Seventy per cent of this amount pertained to claims submitted for services previously paid by the Plan. We were informed that these were largely situations where the health care provider re-billed because payment from the Plan had not been received by a certain date.

Additions or revisions to medical rules are proposed by staff in response to changes in the Schedule of Benefits and Plan payment policies. Once the Branch is satisfied that the proposed rule or revision is necessary, a request is prepared outlining in general terms how the rule or revision will operate. The Branch forwards the request to the Systems Change and Control (SCC) Unit formally asking that a new rule or revision be established on the system.

Our tests indicated that the 1992/93 negotiated fees and services were properly incorporated into the Fee Schedule Master and that claims were paid in accordance with this schedule. Further testing indicated that the procedures established for adding or revising medical rules were followed and payments were based on the rules in place.

### **MEDICAL RULES NOT ON SYSTEM**

At the time of our audit, there were 57 new or revised rules which were awaiting inclusion on the system and which could have a financial impact on the amounts paid to a health care provider. Of the 57, four had been outstanding in excess of two years from the date of approval, 11 for one year to two years, and 32 for three months to twelve months.

The effective date of a new rule or revision is the date when the rule is established on the system rather than the date the rule was approved by the Branch. Accordingly, claims processed between the date the rule was approved and established on the system is not subject to the new or revised rule. This practice could be very costly to the Plan. For example, one revision that was delayed by six months could have saved the Plan approximately \$300,000 had the rule applied as of the approval date instead of the date when it was established on the system.

### **RECOMMENDATIONS**

To ensure that payments do not exceed the Schedule of Benefits, new and revised medical rules should apply from the dates they are approved by the Provider Services Branch. Appropriate action should be taken to clear the current backlog of medical rules.



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## MINISTRY RESPONSE

*New rules and the revisions are effective retroactively to the date of the Schedule of Benefits. They apply only to claims which are processed after the implementation of the computer changes and not to claims already paid.*

*Two methods will be developed to effect recovery of past overpayments:*

- *the Ministry will investigate past overpayments and effect recoveries; and*
- *billings to which medical rules should have been applied will be reprocessed through the computer and new or revised rules will apply.*

*The Ministry of Health considers that accurate, up-to-date medical rules are an important part of the medical claims processing system. The implementation of the medical rules requires thorough analysis, skilled programming, and careful testing prior to implementation. During the past year (September 1992 to September 1993), 82 medical rules were implemented.*

*Within resource constraints and competing priorities, appropriate action is being taken to clear the backlog in medical rules. A project team has been formed to review priorities and focus dedicated resources on the task of clearing the backlog. It is anticipated that the current backlog will be cleared by the end of fiscal 93/94.*

## VERIFICATION LETTERS SYSTEM

This system produces computer-generated letters that the Plan sends to patients asking them to confirm certain details of services paid for on their behalf. Letters are not generated for services pertaining to diseases or conditions that are considered to be sensitive nor for commercial laboratory or other diagnostic and therapeutic procedures since the patients are not likely to have seen the physicians who billed for the services.

Approximately 40 per cent of claims processed in the 1992/93 fiscal year were ineligible for selection.

The primary objective of the Verification Letters System is to provide an ongoing monitoring system for the ratio of invalid claims to valid claims. Based on statistics available in 1980, one in every thousand claims (0.1 per cent) was estimated to be incorrect (claimed in error or potentially fraudulent). The system was designed to monitor this statistic so that appropriate action could be taken if it started to deteriorate. The sample size established in 1980, using a return rate of approximately 50 per cent and an error rate of 0.1 per cent, was 64,000 letters per year or approximately 5,400 letters per month. If over time the system detected that the ratio of incorrect claims was changing the sample size had to be adjusted to correspond with the new ratio.

Secondary objectives of the system are to deter abuse by health care providers and to detect individual abuses. The sample size of approximately 5,400 letters per month was based solely on the primary objective of monitoring the invalid claim ratio. There was no attempt to determine an appropriate sample size for the secondary objectives.



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In view of the increased volume of claims since 1980, the Plan currently sends approximately 144,000 letters over a 24-month cycle to patients chosen at random. Each health care provider may have up to eight letters sent to each patient. A letter includes the date, amount paid, and health care provider for services recently paid for on the patient's behalf. The patient is asked to return the letter to the appropriate district office and to indicate whether the health care provider named was seen on the date shown.

If a patient disputes a service, the district office attempts to resolve the issue. Where the district office believes that the service has not been provided, the issue is referred to the Provider Services Branch (Branch) for further investigation. This may entail sending letters to patients who received a similar service from the health care provider whose service is in dispute. A significant number of discrepancies can lead to referral to the Medical Review Committee (MRC) or a practitioner review committee (PRC). For calendar year 1992, there were 12 referrals to the MRC and none to a PRC. A monthly summary report is to be sent to the Branch by each district office showing the results of the verification activities.

We found that the primary objective of the Verification Letters System was not being achieved. Specifically, we noted that:

- There was no evidence to indicate that the system was used to monitor the ratio of incorrect claims and the overall response rate. As a result the reliability of the current sample size is not known.
- Two large district offices had not reported the results of the verification procedures for the 1992 calendar year. One of these offices did not have any verification letters on hand. We were told that returned letters had been opened, followed up, and destroyed. The other office retained approximately 9,000 unopened letters for 1992 and, consequently, did not do any follow-up. We were informed by management that no follow-up action was taken by the Branch.
- Letters do not contain a description of the services rendered. Without this information the patient is unable to confirm the nature of the service rendered. Verification letters used by the Ministry of Health in British Columbia contain a description of services provided in non-medical terms.

We also found that the Branch had not developed formal procedures to be used by the district offices in following up and reporting the results of the Verification Letters System.

- Written procedures for the follow up of letters disputing the services rendered had not been provided to the district offices. As a result, procedures varied among district offices. For example, in one district office if the patient could not recall visiting a health care provider on the date indicated, the district office would contact the health care provider to obtain more information about the visit. This information would then be provided to the patient to assist in recalling the visit. For the same situation in another district office, only the health care provider was contacted.
- Five per cent of the verification letters sent to patients in the 1991/92 fiscal year were returned by the Post Office because the addresses on the letters were not current. Four of the five district offices which we visited did not update the Registered Persons Data Base to indicate that the addresses on the data base were incorrect.

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## RECOMMENDATIONS

The effectiveness of the Verification Letters System should be reviewed to ensure that it is addressing the requirement of Section 18 of the *Health Insurance Act* and the expectations of management. Procedures should also be established for the effective administration of the system as well as to measure and report on whether the results expected of the system are being met.

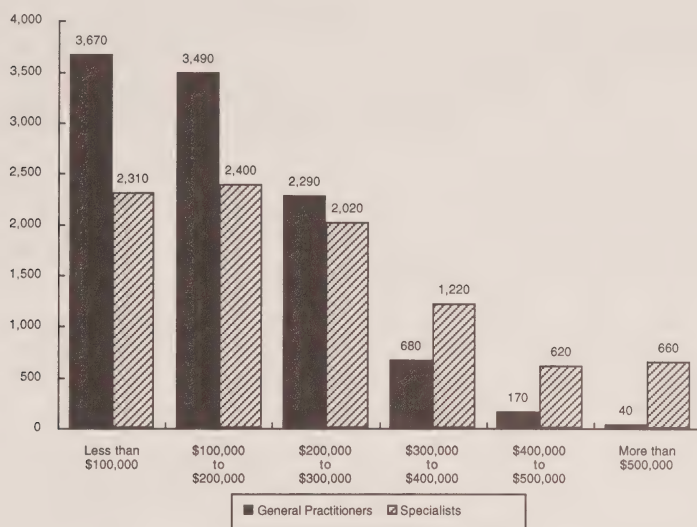
## MINISTRY RESPONSE

*A comprehensive review of the Verification Letters System is currently under way. The review will focus on objectives of the system, on the effectiveness of the current statistical model, and on the administrative efficiency of the system. The Verification Letter System review will be presented to senior management either as part of a strategic plan for monitoring and control redesign, or separately, early in 1994.*

*In addition, management in the Provider Services Branch will meet with their counterparts in Claims Payment Operations to ensure that all returns are recorded, assessed, and evaluated to meet objectives described in the auditors' observations. Formal procedures will be developed and implemented, and staff training will take place. Improving the accuracy of addresses on the Registered Persons Data Base is a priority in order to improve their usefulness for various program activities. Several initiatives are under way including information exchanges and a communications campaign.*

## PHYSICIANS' MONITORING SYSTEM

The following graph shows the billings of fee-for-service physicians during the 1991/92 fiscal year before threshold adjustments.



Source: Ministry of Health

The computerized Physicians' Monitoring System (PMS) identifies on an annual basis physicians whose practice patterns are sufficiently different from the average or typical behaviour of other physicians in the same speciality. Physicians are screened relative to their peers and measured against five broad criteria—total billings, number of patients, number of services, fee charged per service, and variations in fee schedule used by the particular speciality. The PMS also takes into account and adjusts for patient mix, the population, and geographical region within which the physician practices. This system does not ensure that the average pattern is the best nor that services rendered are actually necessary.

In our 1990 report we commented that while the PMS was generally working well in identifying questionable billings, those billings that may well be out of the acceptable range in a particular procedure were unlikely to be identified as long as the physician's overall activity fell within the average practice. Consequently, we recommended that the PMS should be further refined to highlight significant variations in specific services or procedures. The Ministry responded, in part, that the Branch was developing a more sophisticated PMS to examine patterns of utilization and practice.

Our current review of the system indicated that it was unchanged from our prior audit. We were informed, however, that a review of the PMS statistical model was currently under way by a university.

To complement the systems they use to monitor physicians, several provinces have obtained statutory or other authority to carry out random audits of health care providers. Such authority does not exist in Ontario's legislation.

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## RECOMMENDATIONS

The development of a more sophisticated Physicians' Monitoring System to better highlight questionable billings should be expedited.

The Ministry should consider augmenting the limited means they use to detect questionable billings. In particular, the Ministry should review the effectiveness of random audits carried out in other provinces.

## MINISTRY RESPONSE

*The Ministry of Health is exploring legislative and policy alternatives to enhance the authority of the General Manager for audit and investigation purposes.*

*The Monitoring and Control Project will evaluate all aspects of physician monitoring and recommend the best course of action. A strategic plan for monitoring and control will be prepared by the end of 1993. Implementation of approved elements will begin in 1994.*

*Complete re-development would cost several million dollars and would need to follow redevelopment of the Ministry's core systems. The Ministry has initiated a project which will look at redevelopment of the core system and consideration will be given to maintenance or redevelopment.*

*The statistical reliability of the Physicians' Monitoring System has been confirmed by a study commissioned by the Ministry and recently finalized by Queen's University. Further analysis is being conducted jointly with Queen's University to determine the effectiveness of the system in the referral process.*

*The Medical Claims District Reporting Subsystem generates reports for district office medical consultants showing the 20 physicians with the highest billings of codes specified by the medical consultants. The medical consultants then contact the physicians and determine why billings for these codes are so high. The process sometimes results in referrals to Monitoring and Control for full profile investigation.*

## INFORMATION SYSTEMS SECURITY

We reviewed the controls in place to protect the Claims Payment Operations (CPO) systems from unauthorized changes and access. Our review included an examination of the systems' general protection through the security system setup on the mainframe computer operated by a government data centre. Our tests also included the main components of the CPO systems and the related subsystems.

We concluded that satisfactory controls were in place to protect the CPO systems from unauthorized changes and access by persons outside of the Ministry of Health. Specifically:

- Security Over the Systems Environment



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Access to the CPO systems is controlled through access control software which limits user access to specific systems and specific transactions, for example, "inquiry only" versus "inquiry and update," and applies password protection. Access attempts which are not authorized by the access control software (for example, incorrect passwords) are rejected. Some application systems require additional user identification for further access. Access attempts rejected by the access control software were monitored and significant violations were followed up.

- **Systems Change Controls**

Systems changes are generally initiated and approved by user management. The Information Systems Division (ISD) completes the programming and initial systems testing of requested changes. The results of the systems' testing are accepted by the user and changes are implemented with the ISD Project Manager's approval.

Our review indicated that there were adequate procedures in place to ensure only authorized systems changes were implemented.

However, our review revealed a concern pertaining to the protection of confidential information within the Ministry. Patient information in some applications, including patient name, address, date of birth, and treatment code, was accessible by over 1,000 users who could access the Ministry's Information Management System. The Ministry's Security and Confidentiality Committee indicated that additional database security was needed to restrict confidential information to persons requiring the information to perform their duties.

We also noted that there were 68 programmers, including contract personnel, supporting the CPO systems who had access to production data files which include confidential information pertaining to patients and health care providers.

## **RECOMMENDATION**

The Ministry should add security measures to ensure that access to confidential information in the Claims Payment Operations systems and related sub-systems is restricted to those persons requiring the information to perform their duties.

## **MINISTRY RESPONSE**

*The Ministry agrees that it is important to limit access to those persons who require access in the performance of their duties. Requests for access are approved by program managers. Regular follow-up of the initial entry level onto the information system is reviewed on a regular basis and passwords are changed on a periodic basis. During August 1993, all passwords were expired and had to be changed. Monthly reports are sent to all sites to ensure staffing changes are reflected. The On-line Claims Correction System and Health Resources Register are on a second tier of access, available only by entry via the first level. This level of access will also be maintained with the same care and scrutiny.*

*Additional security applies to programming staff employed by Information Systems Division staff who have limited "Read Only" access for the purpose of program support and are not able to change production data.*

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## **FOLLOW-UP OF PRIOR AUDITS**

### **REGISTERED PERSONS DATA BASE**

Under the Act every person who is a resident of Ontario is entitled to become an insured person. A resident is defined by the Act as a person who is legally entitled to remain in Canada and who makes his or her home, and is ordinarily present, in Ontario.

As of May 1993, 10.9 million people were recorded on the Registered Persons Data Base (RPDB) as insured persons under the Act. The RPDB contains information on each registered person including the health card number, surname, given name, gender, date of birth, and address.

In our 1992 audit of the Health Registration System, we concluded that the Ministry had not developed satisfactory procedures to ensure only eligible residents had been issued health cards. During this audit we requested an update of both the Ministry's response to our 1992 audit report and the recommendations contained in an internal report entitled Registration Analysis Project and dated March 1993.

Senior management of the Ministry informed us that the Registration Program Branch has undertaken specific actions to upgrade the management, security, and integrity of the RPDB and Registration System generally. These actions included a review and update of the Registration Analysis Project report.

Some of the activities which the Ministry has initiated up to and including August 1993 are:

- Establishment of the Registration Verification and Control Unit to verify both the data and eligibility of individuals that have been registered and the process used to register them;
- Introduction of improvements to the Registration Database such as pursuing the development of information linkages between jurisdictions;
- Verification of eligibility before new health cards are issued;
- Changes to the health card and the information contained on the health card such as a proposal to introduce a new health card with a photograph; and
- Establishment of an Investigation Unit to investigate and prosecute fraud.

The Standing Committee on Public Accounts is currently reviewing the Ministry's efforts to rectify the concerns noted in our 1992 report and the Registration Analysis Project report.

### **HEALTH RESOURCES REGISTER**

This Register contains information such as the name, address, bank account number, licence number, registration number, and speciality status for health care providers who are eligible to bill the Plan for services rendered to Ontario residents. There were approximately 24,000 health care providers registered with the Plan of which 85 per cent were physicians.

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In our 1987 audit of registered physicians, we reported several anomalies between the information on the register and the computer file of active physicians obtained from the College of Physicians and Surgeons. As a result, we recommended that management periodically reconcile the information recorded on the register with the information held by the licensing bodies of both physicians and practitioners.

The Ministry's response indicated that no inappropriate payments had been made with respect to the registration anomalies identified and that a periodic review process would be put into place. However, at the time of our current audit, a periodic review process had not been established.

### RECOMMENDATION

The Ministry should develop procedures to maintain the data integrity of the Health Resources Register. These procedures should include a periodic comparison of information in the register with information obtained from the licensing bodies of physicians and practitioners and follow-up on all significant differences.

### MINISTRY RESPONSE

*The Ministry plans to undertake the initiatives listed below to improve the quality of the Health Resources Register database. In addition, the Ministry had funded a Health Resources Register System Redesign Project which is currently under way with a target completion date of June 1, 1994.*

Reconciliation with the Register of the College of Physicians and Surgeons of Ontario (CPSO)

*The Ministry agrees with the Auditor that the Ministry's register should periodically be validated against CPSO data. Ministry representatives have been working with representatives of the CPSO since March 1993 to add CPSO data to its own register and resolve technical and privacy issues. The key outstanding issues relate to redistribution of CPSO data and access to private information.*

Validation With Other Colleges

*On behalf of the Ministry, the Ontario Drug Programs Project has undertaken liaison with other practitioner Colleges to set up automated data feeds in 1994. Provider Services Branch will undertake to monitor their progress and will implement validation procedures once these data feeds have been established.*

Other Data Validation

*Since the CPSO address provides only mailing information, the Ministry will periodically compare the street address and postal code and implement a comparison of postal code with the Ministry residence code.*

*A periodic status code update procedure has been implemented that updates the status codes for physicians who have not billed in 12 months.*

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*In 1992 and 1993 birth dates were validated using various ad hoc reports and "reasonableness" tests. These tests are being incorporated into the HRR Systems Redesign.*

#### Periodic Re-registration and Statutory Requirement to Advise the Ministry of Address Changes

*Because of the difficulties in obtaining CPSO data and the recognized need to validate Ministry registry information, the feasibility of implementing a re-registration procedure, tied to billing eligibility, is being investigated. The Ministry is also investigating the introduction of statutes or regulations to require notification of physician address changes.*



# Public Health Activity

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The delivery of public health programs and services is the responsibility of municipal health agencies. However, the Public Health Branch of the Ministry of Health is responsible for developing and, to a large extent, funding certain mandatory programs and services. In addition, the agencies may carry out other programs reflecting their own local priorities. For the 1992/93 fiscal year, the Public Health Activity of the Ministry spent \$260 million. Of that amount, \$190 million was for grants provided by the Branch to health agencies for the delivery of the mandatory programs and services.

The *Health Protection and Promotion Act* provides for the establishment of municipal health agencies. There are 42 health agencies in Ontario. Thirty-three of these agencies are governed by boards of health which are appointed under the *Act*. The remaining nine are operated by regional councils which have the powers, rights, and duties of a board of health. Each agency is administered by a Medical Officer of Health who reports to the board.

The *Act* specifies that boards of health are to provide or ensure the provision of certain public health programs and services to people in their communities. These programs and services are offered in areas like community sanitation, control of communicable diseases, preventive dentistry, family health, home care, nutrition, and public health education. The *Act* authorizes the Minister of Health to publish guidelines for the provision of these programs and services with which all agencies must comply.

Guidelines for mandatory health programs were first published by the Minister of Health in 1984 and expanded in 1985. An extensive review of the guidelines was begun in 1987 and in April 1989 revised guidelines called *Mandatory Health Programs and Services Guidelines* were published. The guidelines cover 20 mandatory programs such as Healthy Children, Food Safety, and Vaccine Preventable Diseases. Agencies were given until 1992 to fully implement the programs.

The program goal, objectives, and requirements are specified in each guideline. For example, the goal of the Healthy Children Program is to enable children (newborn to nine years of age) in the community to attain their optimal level of physical, mental, emotional, and social development. An objective of the program is to increase the percentage of children practising health-enhancing behaviours, and a requirement is to provide health education to parents through postnatal home visits, group sessions, and consultation.

The costs of 19 of the 20 mandatory programs are shared between the Province and municipalities. Municipalities within Metropolitan Toronto receive 40 per cent of their funding from the Province, whereas other municipalities generally receive 75 per cent from the Province. The costs of the remaining program, Sexual Health, are funded entirely by the Province.

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## OBJECTIVE AND SCOPE

Our audit objective was to assess the adequacy of procedures used by the Ministry to obtain reasonable assurance that value for money is being achieved for the grants provided to health agencies for the delivery of mandatory programs. Specifically, we examined the accountability framework, field visits, and program activity reviews.

We reviewed any relevant work by the Ministry's Audit Branch.

## AUDIT OBSERVATIONS

### ACCOUNTABILITY

In 1988, Management Board of Cabinet issued a Directive which required the establishment of an effective framework to hold transfer payment recipients accountable for their management of public funds. An underlying principle of the Directive is that the expenditure of public funds should be managed prudently to meet planned objectives and results for effective program delivery.

The four elements of the accountability process, as set out in the Directive, are:

- setting expectations (deciding on the objectives and results the recipient is to achieve);
- contracting (entering into an agreement with the recipient about the objectives and results to be achieved and the reporting responsibilities);
- reporting (timely reporting on the achievement of objectives and results by the recipient); and
- corrective action (taking necessary corrective action when objectives and results are not being achieved).

In 1989 the Ministry provided Management Board with an accountability framework for the Public Health Activity. Our review of this framework indicated that the requirements had not been implemented. The Public Health Branch was still in the process of implementing the first element of the Directive through the development of performance indicators for the mandatory programs. Consequently, the other three elements cannot be implemented.

The monitoring of agency performance is carried out by the Public Health Branch through telephone calls, correspondence, and visits to agencies. Depending on the concerns noted, the Branch may carry out program activity reviews at agencies.

Field visits and program activity reviews are important monitoring mechanisms for determining the extent of compliance with the mandatory programs and the prudence being exercised in the expenditure of public funds. Field visits and program activity reviews are particularly important since indicators are still being developed by the Public Health Branch to assess agency performance.

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Field Visit Protocols had been established for 10 of the 20 mandatory programs. The protocols require the completion of forms indicating the objectives of the visits, discussions about programs, and follow-up actions. According to senior management of the Branch, field visits were made but the forms were seldom completed. Without documentation of the nature, process, and results of field visits carried out, we were unable to assess the adequacy of procedures used, the follow-up actions required, and whether field visits should have resulted in program activity reviews.

For the remaining ten mandatory programs, senior management informed us that field visits were not carried out as staff time had been devoted to assisting health agencies in the implementation of the mandatory programs.

Over the past two years the Branch has carried out program activity reviews of all of the mandatory programs provided by two of the agencies. The intent of these reviews was to identify those activities that were not in keeping with the direction of the mandatory programs and to make recommendations on resource allocation. Reports on these reviews issued in April 1991 and May 1992 identified several areas where significant changes were needed. For example:

- at one agency, over 8,200 of the approximately 20,000 food premises inspections scheduled annually under the Food Safety Program were deemed to be unnecessary. In addition, in the case of both agencies, the reports indicated that there was a tendency to inspect low-risk premises such as variety stores and cocktail bars, and not to inspect higher risk premises such as institutional food services and full-service restaurants; and
- at both agencies, a number of opportunities were identified under the Healthy Children Program that could be considered for resource reallocation. For instance, mothers of newborn babies were being visited in hospital, for which there was no mandatory requirement. In addition, home visits to new mothers and babies were not targeted towards exceptionally high-risk clients as required by the program's guidelines. In total, the Branch estimated that the equivalent of five to six full-time staff were not required to deliver these activities and could be redeployed.

As a result of the reviews, the two agencies responded that changes were made to their program activities. However, the Branch has not followed up to ensure that corrective action has indeed been taken by the agencies.

As these were the only program reviews conducted, the Branch cannot be sure that other agencies do not have opportunities for improvement similar to those of the two agencies visited.

We also noted that there was no evidence of follow-up action taken by the Branch to obtain explanations from agencies for the decline in the overall immunization rate for diphtheria, polio and tetanus. Over the last four years, immunization statistics on school children reported by health agencies show that this rate has declined from 92 per cent in 1989 to 86 per cent in 1992. Two of the agencies reported that only 25 per cent of the pupils born in 1977 and 42 per cent of the pupils born in 1985 were up-to-date on their diphtheria, polio, and tetanus vaccinations.



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Until the accountability framework is effectively implemented, there is no assurance that expected program results are being achieved. Furthermore, whatever monitoring of agency performance was being carried out was less than satisfactory. Consequently, there is no reasonable assurance that value for money is being achieved for the \$190 million spent on the mandatory programs.

## RECOMMENDATION

To ensure that the expenditure of public funds is managed prudently to meet planned objectives and results for effective program delivery, target dates should be established by the Ministry for implementation of the Directive. In addition, to ensure that the procedures will assist in achieving program results, the accountability framework procedures should be reviewed by the Audit Branch of the Ministry before they are implemented.

## MINISTRY RESPONSE

*Public Health Branch has followed the accountability framework and a number of activities have been undertaken. It is agreed that there has not been rigorous application of all the activities. Target dates will be set for full implementation of the directive. The Branch will work on procedures with the Audit Branch of the Ministry.*

## OTHER MATTER

### VACCINE WASTAGE

The Ministry of Health provides, free of charge, the vaccines required for the Province's mandatory immunization program. For the 1991/1992 and 1992/1993 fiscal years, the Ministry spent \$25 million and \$30 million respectively on the purchase of approximately 30 types of vaccine. The Public Health Branch is responsible for managing the vaccine budget and determining the type and quantity of vaccines to be ordered. Another Ministry branch, Ontario Government Pharmaceutical and Medical Supplies Services (Ontario Government Pharmacy), is responsible for the ordering, storage, and distribution of vaccines. About 90 per cent of immunizations are administered by private physicians.

Wastage of vaccines has been the topic of several studies carried out by the Ministry since 1983/84. According to the Ministry, several factors contribute to vaccine wastage. For example, the vaccine ordering system is open-ended with no control over quantities ordered by physicians, and vaccines are wasted through mishandling during transportation to physicians and through inadequate storage at their offices.

Within the last two years, several steps have been taken by the Public Health Branch to reduce vaccine wastage. They include discontinuing the purchase and distribution of seldom used products and switching from the purchase of multi-dose to single-dose products where appropriate.

The most recent study on vaccine wastage is a Vaccine Utilization Review Task Force initiated by the Public Health Branch in June, 1992. The Task Force's purpose is to identify key sources of vaccine loss and effective and feasible control measures, and to make recommendations for future practice.



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From minutes of meetings of the Vaccine Utilization Review Task Force we noted that a number of options are under consideration, some of which would require significant organizational or policy changes, such as:

- creating a specific billing code for vaccines within the current OHIP billing system;
- billing physicians for vaccine received; and
- having school-aged children immunized by health agencies.

Other more immediate options being considered include educating physicians about vaccine storage, handling, and appropriate ordering practices and minimizing the use of products with short shelf-life.

We concluded that insufficient action has been taken by the Ministry to rectify a problem which has been identified since 1983/84.

### RECOMMENDATION

Given the potential for significant vaccine wastage, we recommend that concerted efforts be taken to minimize such wastage.

### MINISTRY RESPONSE

*Vaccine wastage is an important issue and we agree efforts should continue to reduce wastage which is estimated to be in the range of ten percent. There is an advisory committee which has given advice on a number of considerations to reduce wastage. A number of activities have taken place such as education about vaccine storage, and purchase of vaccines with longer storage capacity. Additional options are being considered for implementation.*

# Equipment Leasing

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The leasing of equipment is governed by the Ministry of Health's policies and procedures manual. However, the minimal requirements that must be followed by all ministries are outlined in Management Board of Cabinet Directives.

Each ministry is responsible for ensuring that its equipment is leased competitively from qualified suppliers. Certain equipment, such as telephone equipment and non-scheduled air transportation, must be leased using the approved mandatory central common service (i.e., ministries designated by Management Board to arrange standing agreements with suppliers for specific items). For optional central common services, ministries must determine the cost-effectiveness of leasing certain equipment from outside suppliers or using established standing agreements. While their use is not mandatory, there are standing agreements for items such as photocopiers, typewriters, pagers and facsimile machines.

For the 1991/92 fiscal year, the Province's expenditure for equipment leasing (excluding computers and vehicles) totalled approximately \$86 million. Of this, the Ministry of Health accounted for approximately \$33.1 million.

## OBJECTIVE AND SCOPE

As part of a cross-ministry audit at six ministries, we audited a representative sample of equipment leases (excluding computer and vehicle leases) at the Ministry of Health.

Our objective was to assess whether the Ministry leased equipment economically and in accordance with central agency and ministry policies and procedures.

## AUDIT OBSERVATIONS

We found that equipment was leased economically and that applicable policies and procedures were followed in all significant respects. Implementing the following recommendations will further strengthen the Ministry's systems for leasing equipment.

### PHOTOCOPIER LEASING

For the 1991/92 fiscal year, photocopier leasing costs at the Ministry totalled approximately \$1.3 million.

Photocopiers are selected from standing agreements based on a branch's requirements and the anticipated monthly copy volume. There are limited records maintained by the Minis-

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try as to the usage of photocopiers. Once a photocopier is installed there is little or no review of actual usage to its capabilities or whether a less costly machine may meet the branch's needs.

We reviewed six photocopiers and determined that five of these were capable of handling significantly greater volumes than what was actually being used. For these five photocopiers we estimate total savings of approximately \$15,000 over a three-year rental term if a more appropriate model had been selected from the standing agreement.

We reviewed an additional 10 photocopiers and determined that the average saving per photocopier was \$1,100 a year. As at December 31, 1992 the Ministry had approximately 266 photocopiers. We determined that 45 of these were under-utilized with potential annual savings of approximately \$50,000 over the three years of the rental contract.

# 3.14

## RECOMMENDATION

Considering the large potential savings available, the leasing of photocopiers should be better managed. This should include assessing and monitoring the actual copy volumes of each machine. This information would also assist the Ministry in determining the number of photocopiers needed and whether some branches could share machines.

## MANAGEMENT RESPONSE

*Of the 266 copiers in the Ministry, we maintain records for approximately 220. The Ministry will expand our tracking to include the remainder.*

*There are several factors Ministry staff consider when identifying the appropriate machine for each location. In some instances, such as new programs or locations, estimates are made of the size of machine to install and the features it should have. This is because no history of operation exists for these locations. Once the equipment is purchased or leased based on this estimate, we cannot downsize without penalty according to the terms of the MBS Standing Agreement. In most cases, the penalty is greater than any savings that would be realized over the term of the agreement.*

*Other factors which should be taken into consideration when deeming a photocopier "under-utilized" are:*

*Duplexing: For obvious environmental reasons, we encourage this feature. Last year the Ministry saved \$22,000 in paper purchase costs because of duplexing.*

*Confidentiality: In many cases we have attempted to discourage the additional lease of copiers where there were other copiers available in the vicinity. Volumes may not have justified an additional copier, but the fact that the material being copied was of a highly confidential nature made it necessary to locate a copier to meet the need of the client. In these areas, we have attempted to put in the lowest volume copier available on the standing agreement.*

*Distance to Other Copiers: Where the distance to other copiers is excessive, we have placed copiers in the vicinity. One example is a copier installed last year at a lab. It was placed in the vicinity of a scientist who had no clerical staff to whom he could delegate the task of copying. He is required to provide copies of lab results to his clients as soon as they are available. Though he makes only 100 copies per day his*

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*reduced travel time to and from the copier is better utilized conducting actual tests in the lab.*

*Operational changes result in decreased copier use: Because copier needs are tied to operational requirements, as the former changes so may copier requirements. For example, with the expansion of access to e-mail, the need for hard copies of document has diminished the load on photocopiers. In some cases this has meant a significant reduction. These clients' needs will be re-examined, and if the copier is no longer cost-effective, it will be transferred to another unit of the Ministry.*

*Features required by client: If a client can justify the need for certain features (e.g. sorting), it is necessary to move to a higher volume machine to meet those requirements.*

*We are conducting a full analysis of our need in the new Ministry head office building (move scheduled Spring 1994). The Ministry is emphasising the "copy centre" approach throughout the building, in order to minimize space requirements.*

## OTHER MATTERS

### AIR AMBULANCE SERVICE

The Air Ambulance Service is used to transfer patients from one medical facility to another for medical care reasons or to reach a critically ill patient in a reasonable time or at an isolated site.

As a result of our audit of the leasing arrangements for the air ambulance service, we had the following concerns:

- Management Board of Cabinet Directives state that requirements "be defined properly so that potential suppliers will be able to submit valid bids" and that "generic and/or functional terms must be the preferred method used to describe requirements." In July 1992 the Ministry requested proposals for a scheduled multiple patient transfer service. The requirements stated that a "Dash 8 or equivalent aircraft was required."

Ministry staff advised us that the Dash 8 reference was included only to provide potential suppliers with some perspective as to the Ministry's requirement. However, once the Ministry defined the type of service, there was no reason to mention a specific aircraft in the requirements.

The supplier selected to provide the service is using a Dash 7 aircraft. The total cost for the one-year trial for this service will be approximately \$1.7 million.

We noted that two carriers did not submit bids for this service because one did not "supply this type of equipment" while the other "was not in the position to operate Dash 8 medevacs." Specific reference to the Dash 8 aircraft may have affected bids not being submitted by these two or other potential suppliers;

- in May 1992 the Ministry had a hangar constructed for its use at the Toronto Island airport at a total cost of approximately \$1.3 million. Ministry staff advised us that the hangar was not intended to provide transfers indoors. However, the specifications for the hangar, issued in April 1991, indicated that the hangar must be large enough to "provide for patient transfers between fixed wing aircraft and a land ambulance (up to



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bus size) during inclement weather." As well "the doors must be sized wide enough to allow entry by a Dash 8 (Series 300) aircraft."

In addition, a Ministry document prepared in the spring of 1992 indicated that patient transfers would be done at the Ministry's air ambulance aircraft hangars at Sioux Lookout, Sudbury, Thunder Bay, Timmins, and Toronto, and that this would allow patients to be transferred indoors during bad weather.

The detailed design drawings clearly show an aircraft parked inside the hangar marked Dash 8. Beside the aircraft is an ambulance bus. However, as stated, the multiple patient transfer service was awarded for a Dash 7 aircraft which will not easily fit into the hangar without extensive manoeuvring. We were subsequently advised by the Ministry that the service now only runs to Toronto on occasion and that the hangar is only used for patient transfers in exceptional circumstances;

- B.14**
- Standing Offer Agreements for charter aircraft expired on March 31, 1992. The Ministry instructed all carriers that proposals for the 1992/93 Standing Offer Agreements were due on February 28, 1992. Therefore, the Ministry had one month to evaluate all the proposals and sign the agreements. We reviewed 14 of the 25 carriers on the Standing Offer Agreements for 1992/93. Four carriers undertook 149 flights totalling \$413,000 before the Standing Offer Agreements were signed. This put the Ministry at potential risk in the event of an accident or other problems since no legal agreements existed;
  - whenever an air ambulance is needed, a computer program identifies a list of carriers that are suitable for the flight. In our sample of 10 flights during 1992/93, there was no documentation available to indicate how seven of these aircraft were selected. The other three had quotations attached. However, there was no indication how two of these were selected. One of these was thirtieth on a list of 60 potential aircraft while the other was tenth on a list of 40. It is important to document the reasons for selecting aircraft to avoid any appearance of favouritism; and
  - the Office of the Treasury has established expenditure classifications (common object codes) which are used for overall government financial management. Ministries are required to ensure that payments are charged to proper classifications. Of the \$30.6 million spent to lease aircraft for the air ambulance service during the 1991/92 fiscal year, \$12 million was charged to direct operating expenses and \$18.6 million was charged to transfer payments.

Ministry staff advised us that the dedicated services, which are available exclusively to the Ministry on a 24-hour basis, are charged as direct operating expenses. The charter services, which are available to the Ministry on an as-needed basis, are charged to transfer payments for operating purposes to non-profit institutions. However, since the charter service is provided by private-sector operators, it would be more appropriate to charge it to direct operating expenditures.

While this has no impact on the financial statements of the Province, it can result in incorrect analysis of financial information.

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## RECOMMENDATION

To ensure that all potential suppliers are provided with an opportunity to bid, the Ministry should ensure that the tender specifications are stated in generic or functional terms.

## MANAGEMENT RESPONSE

*The reference to the Dash 8 aircraft was to indicate to potential suppliers the class of aircraft we were looking for, to differentiate from the separately licensed small charter aircraft of limited capacity and capability. Audit comments are acknowledged. Criteria were clearly spelled out in the Request for Proposal, and it was felt that bids were not affected. In future, specifics regarding the type of aircraft will be used as an example of type or class.*

## RECOMMENDATION

At the completion of the one year trial for the multiple patient transfer service, the Ministry should determine the appropriateness of using this type of aircraft for the transfer of patients.

## MANAGEMENT RESPONSE

*The aircraft selection was based on it being the best vehicle suited to the undertaking and the project review will evaluate all aspects of the operation.*

## RECOMMENDATION

To avoid any undue risk, the Ministry should ensure that Standing Offer Agreements are signed before any flights are undertaken.

## MANAGEMENT RESPONSE

*The signing of standing offer agreements with charter and any other aircraft now is mandatory before the Ministry will undertake any business with carriers.*

## RECOMMENDATION

Documentation should be prepared to justify the aircraft selected.

## MANAGEMENT RESPONSE

*The system for documentation was in place, but was not used. The system will be followed.*

## RECOMMENDATION

The Ministry should determine the most appropriate expenditure code and ensure that it is used consistently.

## MANAGEMENT RESPONSE

*The Ministry is planning to change the contracting system used for transporting patients who are not critically ill and a portion of the change is to have the costs charged to direct operating expenditures.*

# Grants to Conservation Authorities

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3.15

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Conservation authorities are corporate organizations established under the *Conservation Authorities Act*. Their objectives are to further the conservation, restoration, development, and management of natural resources in the areas over which they have jurisdiction. Their primary role is to manage water resources, and in particular to safeguard the public from flooding and erosion through programs designed to minimize risks to life and property from flooding and erosion. Currently, there are 38 conservation authorities in the province.

Conservation authorities represent a partnership between municipalities and the province. Their programs are funded through grants from the province, municipally raised levies, private donations, and revenue generated from their own operations. The Provincial Conservation Authorities Section and the Conservation Authorities Policy Section of the Ministry of Natural Resources administer the provincial transfer payments made to authorities, monitor their activities and develop appropriate policies. During the 1992/93 fiscal year, the Ministry of Natural Resources provided transfer payments totalling approximately \$53 million. Of this amount, \$29 million was allocated to capital projects, while the remaining \$24 million was for administrative and operating costs.

## OBJECTIVES AND SCOPE

The objectives of our audit of the grants to conservation authorities under the Conservation and Resource Management Program were to assess whether there were adequate systems and procedures in place to ensure grants were spent economically and in accordance with Ministry requirements, and that the Ministry had procedures in place to measure and report on the effectiveness of the program.

Our audit was conducted at the Ministry's southern region office in Aurora and at five conservation authorities. We also reviewed any relevant work by the Ministry's Internal Audit Branch and the Municipal Audit Bureau and, where applicable, reduced our work accordingly.

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# AUDIT OBSERVATIONS

## MEASURING AND REPORTING ON PROGRAM EFFECTIVENESS

In May 1988, Management Board of Cabinet issued a directive requiring the establishment of an effective framework to hold transfer payment recipients accountable for their management of the public funds entrusted to them. This requires a relationship between the Ministry and the recipient which should include:

- setting expectations (deciding on the objectives and results that the recipient is expected to achieve with the transfer payment);
- contracting (entering into an agreement with the recipient);
- reporting (timely reporting on the achievement of objectives and results by the recipient); and
- corrective action (taking the necessary action to ensure achievement of objectives and results).

At the time of our audit, the Ministry had not provided Management Board of Cabinet with a formal accountability framework for its relationship with conservation authorities. However, a number of accountability mechanisms had been established. These included the appointment of provincial representatives to each authority as permitted by the Act, audits of the eligibility of expenditures which are conducted by the Municipal Audit Bureau, annual audited financial statements, and operational audits undertaken by the Ministry's program staff.

Sections 20 and 21 of the *Conservation Authorities Act* state that the objectives and powers of the conservation authorities include establishing and undertaking—in the areas over which they have jurisdiction—programs designed to further the conservation, restoration, development, and management of natural resources other than gas, oil, coal, and minerals. Such broad and general objectives make the Ministry's monitoring of how grant funds are used especially critical.

We found that the Ministry does not have a process in place to measure and report on the effectiveness of the conservation authorities program. At present, there is significant diversity in the types of activities undertaken by different authorities. For example, in the five authorities we visited, activities included constructing flood and erosion projects to protect life and property; improving water quality; and managing large campgrounds, golf courses, and aggregate pits.

While conservation authorities are responsible for protecting watershed areas, they have limited authority to enforce protective programs or guidelines for land owned by others. Developers, landowners, the public, provincial ministries, and municipalities all have their own goals and objectives for land, and these may conflict.

This point was emphasized in a 1989 report by an Environmental Advisory Committee on the adequacy of the existing environmental planning and approvals process for a particular watershed. The Committee found that, "each municipality has its own set of priorities and objectives based on concerns within its jurisdiction. In the absence of special efforts, there is little likelihood that the separate municipal decisions will be consistent in their



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approach to environmental protection, or that they will reflect a comprehensive understanding of what is needed to protect the overall environmental quality." The report also stated that the conservation authority is restricted in its ability to address these issues because it has neither the mandate nor the authority to implement planning policies for the watershed.

At present, the Ministry of Municipal Affairs and the municipalities of Ontario, through the *Planning Act*, 1983, are responsible for land use planning in the province. The Ministry of Natural Resources and the conservation authorities act only in an advisory capacity to the Ministry of Municipal Affairs and the municipalities on land use matters.

Concerns regarding the recreation and development activities of conservation authorities were raised in an August 1990 report by The Royal Commission on the Future of the Toronto Waterfront which stated that:

*At least among many of the people who appeared before the commission, there appears to be a crisis in confidence about the role of Conservation Authorities. People expect that the primary responsibility of conservation authorities is conservation — protecting valley lands and natural areas, taking the lead in restoring water quality, planting trees and shrubs to attract wildlife. What they see instead is the recreation and development side of conservation authorities: building spits of lakefill into water developing marinas and active recreation parks, turning streams into sterile ditches in the name of flood control. Rather than being perceived as passionate defenders of the environment, the authorities are seen as one among any number of despoilers.*

In May 1992, Cabinet directed the Ministry to undertake a comprehensive review of the *Conservation Authorities Act* to ensure an appropriate administrative and legislative framework for effective and improved operation of conservation authorities.

The Ministry noted that the current legislation does not adequately reflect either the roles which authorities are expected to play or modern standards of local public agency administration. The objective of this legislative review is to adequately empower authorities to carry out their mandate and to ensure that the Conservation Authorities Program can be operated effectively and consistently. The review is also intended to address issues such as regulatory powers, financial administration, accountability, and the roles of conservation authorities in relation to other legislation and government processes.

We were informed by the Ministry that they have "attempted to measure and report the effectiveness of the Conservation Authority Program through a variety of measures including operational audits and financial reporting. Also, the Ministry has recently taken a proactive role in gaining the Association of Conservation Authorities of Ontario (ACAO) support to establish a joint Ministry of Natural Resources / ACAO information management program which will assist the Ministry in monitoring the program and measuring effectiveness. Review of minutes of meetings, review and processing of submissions and attendance and participation at conservation authority and ACAO meetings also assist in monitoring of the program."

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## RECOMMENDATION

The Ministry should develop a process for measuring and reporting the effectiveness of the Conservation Authorities Program.

The review of the *Conservation Authorities Act* should give priority to clarifying the mandate of conservation authorities and powers needed for conservation authorities to effectively implement their mandate.

## MINISTRY RESPONSE

*The Ministry is currently undertaking an extensive review of resource management program delivery in municipally organized Ontario. This review is examining options for addressing a number of issues and pressures, such as limited financial resources, sustainable development of natural resources and greater community involvement in decision making. As part of this review, the Conservation Authorities Act is being considered for legislative changes. In addition, some amendments to the Conservation Authorities Act are being proposed through omnibus bills. As part of the implementation strategy associated with this review, the Ministry will develop a process for measuring and reporting the effectiveness of the Conservation Authorities Program.*

# ADMINISTRATION OF CAPITAL PROJECTS

## CAPITAL PROJECT PRIORITY SETTING

Each of the 38 conservation authorities annually submits to the Ministry a list of proposed capital projects for which Ministry funding is requested. Each project is reviewed and ranked by Ministry staff in one of 16 capital expenditure categories. Priorities are determined by comparing all proposed projects in each category.

As one would expect, some projects which receive approval for provincial funding may be delayed, or have actual expenditures which are lower than originally estimated. Instead of allocating these excess funds to the next highest ranked project in the same capital allocation category, the Ministry has frequently allowed authorities to use these funds to pay for cost overruns on other approved projects or to fund other projects which often did not rank high enough on the Ministry's priority listing to qualify for funding that year.

For example, in 1992, one authority received grant approval for \$370,000 for a flood control project with a total estimated cost of \$1.1 million. Due to delays, this project was not undertaken. Documentation at the authority indicated that at the time grant approval was received, it was unlikely this project could have been undertaken in 1992. For example, the authority's membership had not yet passed a resolution to proceed with this project. However, it received a high enough ranking in the flood-control category to qualify for provincial funding.

Mid-way through the year, the authority requested and obtained Ministry permission to use this funding to acquire outdoor recreation lands costing approximately \$1 million. The land was acquired for environmental and recreational purposes, not for flood control. Outdoor recreation is a separate funding category in the Ministry's capital funding process. For all of 1992, only \$2.3 million was allocated under the outdoor recreation category.

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While this new outdoor recreation project was ranked high from an authority perspective, it ranked low from a provincial one. Seven other unfunded outdoor recreation projects which were ranked higher did not receive Ministry funding. In addition, the authority had initially requested only \$125,000 in Ministry funding for the project.

Over a two-year period, another authority used surplus funding totalling \$450,000 to fund an unranked project, while there were at least 40 unfunded projects ranked higher. The authority received Ministry approval to allocate surplus funding from ranked projects to the unranked project.

The Ministry provided us with the following information:

*All capital projects are reviewed and ranked relative to provincial ranking criteria. All projects appearing on the Conservation Authorities Capital Projects Priority List are of provincial significance and priority and are intended to receive provincial funding at some point relative to ranking. The reallocations process does give precedence to ranking. However, ranking and ability to implement rests, to a significant degree, on the availability of municipal level and/or local funding support. If surplus funds become available later in the year, it is often not possible to reallocate funds to the next order of priorities in the same capital program category because municipalities have set their budgets much earlier in the year and matching local funds are no longer available. Another factor in reallocations is the receipt by the Ministry of additional or new technical information through the year which may affect technical rankings. It should be noted as well that the magnitude of difference in priority between projects on the Priorities List may be minimal and a change in program status, such as the sudden availability of a priority property for acquisition, can shift priorities.*

## RECOMMENDATIONS

Excess funds should be used for the next highest priority project in the same capital allocation category.

The readiness of projects put forward for provincial funding should be scrutinized more thoroughly to ensure that authorities are not obtaining funds for projects that will not be undertaken and using these funds for projects which ranked lower as provincial priorities.

## MINISTRY RESPONSE

*The Ministry will review its operating policy to ensure that funds are used for the highest priorities.*

## CAPITAL PROJECT TENDERS

Authorities are responsible for the management of capital projects. This includes establishing policies and procedures to ensure that engineering and construction services are acquired in a competitive manner. The Ministry's policies and procedures for conservation authorities require that authorities advertise and receive tenders for capital projects.

Our audit included reviewing the acquisition of major construction contractors and technical engineering services for capital projects. For the hiring of major construction contractors, authorities generally complied with appropriate purchasing policies and procedures.



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However, one significant exception was noted. At one authority, the leasing of equipment for flood and erosion control projects is tendered annually. For the past 25 years, the same company has won the tender. During 1991, the authority paid this vendor over \$1 million.

While we were satisfied that this firm provided the lowest quotes, we noted that equipment requirements were not specified as part of the tender. Because of the long relationship this company has had with the authority, it appears to be in the best position to know the authority's equipment needs. This could give the firm an unfair advantage when bidding on the tender. Detailing specific equipment requirements in the tender would ensure that all potential suppliers have a fair chance of successfully bidding.

In 1986, we reported that for technical consulting services only one firm was approached in a number of instances. At that time, the Ministry wrote all authorities reinforcing the need to document the selection of professional and technical services.

In our current audit, we observed that, at four of the five authorities we visited, there were insufficient proposals for technical engineering services. The authorities usually hired engineering firms because they had performed preliminary work or had some familiarity with the projects. Each of these examples relates to a different conservation authority:

- an engineering firm was paid over \$300,000 for an erosion and flood control project without tendering for these services. This project had three different locations over a six-year period. Considering the differing locations, creek layouts, and flood and erosion control requirements, the need to use the same consultant for all phases was questionable;
- another engineering firm was awarded all four phases of an erosion control project without tendering. Since 1979, this firm has been paid over \$200,000;
- engineering consultants were awarded contracts for final design, supervision, and inspection totalling over \$107,000. This firm had prepared the preliminary study and was the only firm invited to submit a proposal on the subsequent work; and
- over \$100,000 was paid by an authority to an engineering consulting firm during 1991 and 1992 without the benefit of a tender. The consultant has managed this project since its inception in 1983.

## RECOMMENDATION

The Ministry should more closely monitor the competitive acquisition process to ensure that authorities receive the best value for funds expended and to promote fair dealings and equitable relationships with potential suppliers.

## MINISTRY RESPONSE

*There are many documented cases where conservation authorities have demonstrated that there is merit and financial benefit to the public in extending the work of a consultant or other service provider in specific program areas. The Association of Professional Engineers of Ontario, for example, encourages the province and the conservation authorities to give high priority to quality of product and service, as well as cost, in awarding engineering contracts. The benefits of maintaining background and continuity of service, for example, in progressing from preliminary engineering studies through to detailed design engineering*



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and preparation of tender documents on a project or related projects may warrant consideration of continuing with one consultant in some instances.

*The Ministry recognizes the importance of ensuring that authorities receive the best value for funds expended and provide a competitive and fair process for procuring services. The Ministry will reiterate to the conservation authorities existing policy regarding competitive acquisition processes. The conservation authorities are accountable to a board of directors whose responsibility it is to ensure that provincial local funds are expended in the best public interest.*

*Adherence to best practices can be monitored through the operational audit process.*

## 3.15

### CAPITAL PROJECT MANAGEMENT

The Ministry policies and procedures manual assigns the major responsibility for monitoring construction contract progress to the authorities. Capital projects examined by us were reviewed to ensure that monitoring by authorities was adequate in ensuring projects were completed on time and within budget.

We concluded that the projects we reviewed were properly managed by the authorities, and any cost or time overruns were properly approved and justified.

### OTHER MATTERS

#### ADMINISTRATIVE COSTS

At the present time, the capacity to develop and deliver necessary programs and to hire and utilize appropriate staff varies among conservation authorities. In 1991/92, the smallest authority in the province had a budget of \$354,000 and permanent staff of five, while the largest authority's budget is almost \$50 million, and it employs 250 permanent staff.

The administration costs of 15 authorities, each with annual expenditures of less than \$1 million, averaged 33 per cent of total expenditures. Administration costs for authorities with annual expenditures exceeding \$1 million averaged only 19 per cent.

One option for lowering administration costs for some smaller authorities is to amalgamate some of them. In May 1992, Cabinet stated that authorities should not be forced to amalgamate, but that those who wished to explore amalgamation should be provided with financial and staff assistance to undertake the necessary reviews.

Our discussions with authority and Ministry staff indicated that little progress had been made in this area. At least two authorities we visited had undertaken initial discussions on amalgamation with bordering, smaller authorities. However, in both instances the smaller authorities were not receptive.

Another option to consider is the sharing of resources. For example, smaller authorities could share resources with neighbouring, larger authorities or with other small authorities. For instance, while one authority may not be able to pay for a full-time technical position, it may be possible to share the position among two or more authorities.

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## RECOMMENDATION

We recommend that the Ministry require authorities to pursue avenues for minimizing administration costs, including the possibility of sharing resources where practical.

## MINISTRY RESPONSE

*Reductions in funding allocations have moved conservation authorities to pursue cost-cutting measures in all program areas. The Ministry will work with the conservation authorities to minimize administration costs.*

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## MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES

# Emergency Planning Ontario

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3.16

Emergency Planning Ontario (EPO) was created by the Lieutenant Governor in Council and was placed in the former Ministry of the Solicitor General shortly after Ontario's experience from three major incidents (the Three Mile Island nuclear emergency, major evacuations in Northern Ontario due to forest fires, and the Mississauga train derailment and chemical spill). In 1979, about the same period, the responsibility for implementing nuclear emergency preparedness and response arrangements passed from the Minister of Labour to the Solicitor General.

The role of EPO was expanded in 1983 with the proclamation of the *Emergency Plans Act*. The chart on the following page outlines EPO's current role in the overall context of emergency preparedness and response arrangements in the province.

Recognizing changes in the operating environment, the Ministry initiated an organizational review of EPO by a firm of management consultants. The consultants' report was issued in 1991.

The findings and recommendations of that report were reviewed by management, and a new organization structure was developed and phased in during the 1991/92 fiscal year. The reorganization increased the emphasis on delivering training services to municipal officials and personnel involved in emergency preparedness and response, and shifted some of the emergency preparedness advisory functions to four regional offices. The additional resources that would be required to fully implement all of the recommendations have not been made available.

EPO had expenditures of \$1.3 million for the 1992/93 fiscal year and a staff complement of 24.

## OBJECTIVE AND SCOPE

Our audit objective was to assess whether Emergency Planning Ontario had procedures in place to ensure satisfactory monitoring, co-ordination and implementation of emergency preparedness and response in the province.

The scope of our audit covered all major activities of EPO as outlined in the Act.

We conducted our audit work at head office and held discussions with management and staff.

Responsible party	Non-nuclear emergencies	Nuclear emergencies
<b>Lieutenant Governor in Council</b>	May designate municipalities which require an emergency plan. May designate ministries and Crown Agencies and assign them emergency responsibilities. Appoints Emergency Planning Co-ordinator.	Shall formulate a nuclear emergency plan
<b>Premier</b>	May declare that an emergency exist, or has terminated. May take action or make such orders as are necessary to implement emergency plans. May designate a minister to exercise his powers. May direct one municipality to assist another.	
<b>Solicitor General</b>	Directs Emergency Planning Ontario. When designated, implements Provincial Emergency Plan (especially for nuclear emergencies) and exercises powers conferred on the Premier. Formulates plans for war emergencies and other peacetime emergencies not assigned to other ministers.*	Approves plans of designated municipalities, and co-ordinates these plans with the Lieutenant Governor's plans.
<b>Emergency Planning Ontario</b>	Monitors, co-ordinates and assists in the formulation and implementation of provincial and ministry emergency plans, and co-ordinates them with plans of municipalities and federal government.	
<b>Designated ministries and Crown agencies</b>	Formulate emergency plans as assigned by Lieutenant Governor in Council.* When designated, implement Provincial Emergency Plans and exercise powers conferred on the Premier.	
<b>Designated municipalities</b>	Formulate emergency plans as designated by Lieutenant Governor in Council.	
<b>All municipalities</b>	May pass a by-law formulating an emergency plan. May declare that an emergency exists or has terminated. Must notify Solicitor General of a declared emergency and its termination.	Where a municipal plan includes provision for nuclear emergencies, it must conform to the emergency plan formulated by the Lieutenant Governor in Council and be subject to the approval of the Solicitor General.
<b>County councils</b>	May co-ordinate and assist in formulating and implementing emergency plans of County municipalities.	
<b>Public</b>	May inspect and copy emergency plans at municipal and ministry offices.	

*\*Note: The Solicitor General has also directed Emergency Planning Ontario to formulate a Provincial Emergency Plan that may be implemented by the Premier or a designated Minister in response to a major, non-nuclear emergency that entails a need for a provincially directed and co-ordinated response by several ministries.*



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# AUDIT OBSERVATIONS

## PROGRAM EFFECTIVENESS

Effective preparedness and response measures can reduce the risk of damage to lives and properties caused by emergencies. The goal of EPO is to enhance emergency preparedness in the province by monitoring, co-ordinating, and assisting in the formulation and implementation of emergency plans. Some of the measures which EPO can use to assess the effectiveness of its activities include the desired level of emergency preparedness to be achieved, and the number of plans which are current and tested to deal with potential emergencies.

However, we found that there was a lack of clearly stated effectiveness measures and no system in place for the monitoring, evaluating, and reporting of program effectiveness.

### RECOMMENDATION

Emergency Planning Ontario should develop measures to identify key program objectives and a system to evaluate results of operations against these key objectives. This information base can assist management in monitoring and refining its program effectiveness.

### MINISTRY RESPONSE

*Biannual surveys of emergency plans developed by municipalities have been conducted since 1983; a library of federal, provincial and municipal plans are maintained; evaluations of federal, provincial and municipal plans are made wherever requested. Also, the practice of identifying key program objectives introduced by Emergency Planning Ontario in fiscal year 92/93 will continue and will be enhanced to include a method of evaluating and reporting results.*

## EMERGENCY PLANS AT THE PROVINCIAL LEVEL

### PROVINCIAL NUCLEAR EMERGENCY PLAN (PROVINCIAL NEP)

Under Section 8 of the Act, the Lieutenant Governor in Council is to "formulate an emergency plan respecting emergencies arising in connection with nuclear facilities."

The finalization of the component parts of the Provincial NEP was delayed. The *Master Plan*, a component of the Provincial NEP which provides the basis upon which nuclear emergency planning, preparation and implementation shall be undertaken, was approved by Cabinet in 1986. However, the components relating to the various site-specific plans were not completed and approved by Cabinet until various dates between 1989 and 1991. The "transborder plan," prepared in 1986 for nuclear emergencies originating outside of Ontario, had not been finalized. However, EPO had entered into written agreements with the states of Michigan and Ohio on the sharing of information in the event of a nuclear emergency originating in those states and affecting Ontario.

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Following the nuclear accident in Ukraine at the Chernobyl nuclear facility in 1986, two provincial studies were conducted to reassess the adequacy of the public safety issues related to the nuclear facilities in Ontario. The Provincial Working Group #8, formed in 1987 to review the technical basis used to formulate the Provincial NEP, issued its report in 1988. The Ontario Nuclear Safety Review, commissioned in 1986 to review the safety of Ontario Hydro's CANDU reactors and associated emergency plans, also issued its report in 1988. Both reports recommended revisions be made to the basis used in the detailed planning for nuclear emergencies.

In January 1989, EPO produced an initial draft of a Cabinet Submission that identified the proposed revisions to the Provincial NEP. Ministry officials explained that the delay between the issuing of the two provincial reports in 1988 and the finalization of the draft Cabinet Submission in 1992 was due to a number of factors, including changes in governments and ministers, an extensive consultation process with all the parties affected by or involved with nuclear emergency planning (municipalities, federal and provincial departments and agencies, individuals and organizations) and the numerous revisions made to the proposal resulting from these consultations.

We noted that at the time of our audit in January 1993, this April 1992 draft Cabinet Submission to revise the existing Provincial NEP was still awaiting the approval of the Solicitor General and the Cabinet.

## **RECOMMENDATION**

As the proposed revision to the existing Provincial Nuclear Emergency Plan is intended to improve the safety of the people of Ontario, it should be considered for approval by the Solicitor General and, if approved, submitted to Cabinet for its review and approval.

## **MINISTRY RESPONSE**

*The current Provincial Nuclear Emergency Plan provides effective measures for public safety in the event of a nuclear accident. The proposed revisions provide for the enhancement of the currently approved plan and will be submitted for the consideration of Cabinet.*

## **PROVINCIAL EMERGENCY PLAN (NON-NUCLEAR)**

Although not required under the Act, EPO in May 1991 submitted to the Solicitor General a Province of Ontario Emergency Plan for Cabinet approval. This Plan provided general guidelines on when a co-ordinated provincial response to a non-nuclear emergency would be required and clarified the role of EPO by explicitly designating it as the co-ordinator in such an emergency. As of January 1993, this Plan was still awaiting the approval of the Solicitor General and submission to Cabinet.

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## RECOMMENDATION

To clarify the role of EPO and permit guidelines to be issued, the proposed Provincial Emergency Plan (non-nuclear) should be considered for approval by the Solicitor General, and, if approved, submitted to Cabinet for its review and approval.

## MINISTRY RESPONSE

*Ministries and other provincial agencies are currently able to respond to emergencies in accordance with long standing plans and procedures. The proposed Provincial Emergency Plan will establish an overall management framework for more timely and better co-ordinated provincial responses to emergencies. The Plan will be submitted for consideration.*

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## MINISTRY EMERGENCY PLANS

### NUCLEAR EMERGENCY PLANS

Of the 12 ministries assigned specific responsibilities under the Provincial Nuclear Emergency Plan, eight are required to have plans or procedures in place to respond to a nuclear emergency.

We noted that:

- although EPO had tested emergency procedures used by the eight ministries, only three ministries had provided documented procedures to EPO; and
- there had not been a full assessment by EPO to ensure that the plans and procedures complied with the principles of nuclear emergency planning, and that they were co-ordinated with the Provincial and Municipal Nuclear Emergency Plans.

The delay in developing co-ordinated plans may reduce the ability to effectively respond to major disasters.

## RECOMMENDATION

EPO should encourage and assist the remaining five designated ministries which have not yet submitted formalized nuclear emergency plans or procedures to complete them and then schedule a full compliance assessment of all eight plans to assess whether there is the ability to respond effectively to major disasters.

## MINISTRY RESPONSE

*We shall continue to encourage all ministries to document their plans and procedures. To assist them in this we are developing a set of provincial emergency preparedness standards. Commensurate with the workplan for the revision of the Nuclear Emergency Plan, ministries will be requested to update their procedures in conformance with a timetable.*

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## EMERGENCY PLANS (NON-NUCLEAR)

In 1990, an Order in Council designated eight ministries which require emergency plans for specific types of non-nuclear emergencies.

Also in 1990, the Emergency Preparedness Co-ordinating Committee (Committee) was formed to act as an advisory group to the former Ministry of the Solicitor General. Responsibilities include the co-ordination and development of emergency preparedness policies, procedures, and initiatives. The Committee was chaired by the Assistant Deputy Minister, Public Safety Division of the former Ministry of the Solicitor General. Membership in this Committee is composed of senior officials from the eight ministries with designated responsibilities. One of the Committee's terms of reference is to monitor the state of emergency preparedness in Ontario by reviewing the emergency planning of designated ministries.

We noted that neither the Committee nor the EPO had a system in place to monitor and co-ordinate the formulation and implementation of the designated ministries' emergency plans:

- only five of eight ministries had completed plans. There was no deadline scheduled for the completion of the remaining plans, or exercises scheduled to test the adequacy of the plans; and
- there was no mechanism in place to determine whether overlaps or gaps exist in these plans which would restrict the services needed during an emergency.

We noted that most of the designated members had delegated their attendance at Committee meetings to less senior ministry representatives. This could have a negative impact on the effectiveness of this Committee in making major decisions on a timely basis.

## RECOMMENDATION

The Emergency Preparedness Co-ordinating Committee, in conjunction with the EPO, should implement a system to ensure that designated ministries complete their plans and have them tested on a timely basis. The designated senior members should attend Committee meetings to ensure the effectiveness of this Committee in making major decisions on a timely basis.

## MINISTRY RESPONSE

*Ministries will be asked to assign a higher level of priority to the work of the Emergency Preparedness Co-ordinating Committee, specifically by reviewing the level of their appointments. The Committee will be asked to approve new standards that will guide ministries in the fulfilment of their emergency preparedness and response functions in the future.*



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## EMERGENCY PLANS AT THE MUNICIPAL LEVEL

### MUNICIPAL NUCLEAR EMERGENCY PLANS (MUNICIPAL NEP)

The Provincial Nuclear Emergency Master Plan required 13 municipalities close to nuclear facilities to prepare six regional Municipal NEPs. Pursuant to Section 8 of the *Emergency Plans Act*, these Municipal NEPs must be approved by the Solicitor General to ensure they are consistent with the Master Plan.

Our review of these Municipal NEPs indicated that only three of the six required plans had been approved between 1989 and 1992. The three approved plans generally complied with the principles of nuclear emergency planning, preparation, and response, as set out in the Provincial NEP. The three remaining plans have not yet been submitted to EPO for approval.

The status of the six plans were as follows:

Approved:

- Region of Durham for the Pickering facility.
- Region of Durham for the Darlington facility.
- Joint municipal plan presented by the County of Essex for the facility in Michigan.

Not submitted for approval:

- The plan of Metropolitan Toronto for the Pickering facility.
- The plan of four municipal areas represented by the County of Bruce for the Bruce facility.
- The plan of five municipal areas represented by the County of Renfrew for the Chalk River facility.

To provide a trail of the EPO review and approval process and to ensure that plans conform to the required principles, there should be checklists or guides to identify all of the critical components required of such a plan. In view of the long time frame involved in these projects which entail lengthy discussions and revisions, such documentation would provide management with an effective means of monitoring the development of these plans and provide assurance that they conform to the requirements. This would also facilitate the follow up of these plans should the EPO staff originally involved be absent, or the responsibility be reassigned.

### RECOMMENDATION

Considering the population covered by the Municipal Nuclear Emergency Plans not yet received for approval, it is imperative that action be taken to ensure these plans are submitted at the earliest possible time.

### MINISTRY RESPONSE

*The Provincial Nuclear Emergency Plan requires designated municipalities to prepare municipal nuclear emergency plans that conform to the provincial nuclear emergency plan and to undertake the necessary preparations to ensure they are able to implement their plans in an emergency.*

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*All municipalities covered by the Provincial Nuclear Emergency Plan have local municipal nuclear emergency plans. These plans have been developed in close consultation with EPO and have been reviewed by them. We are satisfied that they conform to the provincial plan and can be effectively implemented to ensure public safety. This has been confirmed through exercises of these plans.*

*Of a total of six municipal plans, three have been formally approved by the Solicitor General. In the three remaining nuclear planning areas:*

- (a) Metro Toronto has a nuclear plan that is appended to its larger emergency plan, which is currently undergoing revision. Upon completion, the nuclear appendix will be submitted to the Solicitor General and Minister of Correctional Services for approval.*
- (b) The municipalities in Bruce County and Chalk River have prepared municipal nuclear emergency plans that require formal approval by the Councils affected before submission to the Solicitor General and Minister of Correctional Services for approval.*

*We shall work with these municipalities to expedite the completion of the approval process.*

## **PRACTICE EXERCISES**

### **NUCLEAR EMERGENCY PLANS**

A program of regular exercises to test emergency plans will ensure that they meet planning requirements and are current, and that emergency personnel can effectively deal with an actual emergency. A post-exercise assessment facilitates the identification of any deficiencies in an emergency plan so that appropriate modifications can be made.

We found that there was no formal documentation on scheduling exercises to ensure that all plans were tested over a specified time cycle.

There had not been any full-scale exercise involving both the provincial and municipal levels since 1986. During the 19 months from April 1991 to October 1992, a total of only four major exercises were held; one at the provincial level and three at the municipal level, each involving a different nuclear facility. These exercises tested selected components of the plan, but not the entire plan.

Our review of two of these four exercises indicated that there were clearly defined objectives for each of the components tested and evaluations were made of the exercise against these objectives.

However, there was no overall assessment of the effectiveness of the co-ordinated implementation of the various provincial and municipal plans, nor was there a documented trail, such as a checklist or guide, on the minimum standards required.

Such assessments should be made and procedures implemented to provide a basis for conducting the evaluations. This would ensure that evaluations covered all critical aspects of the component and provide consistency in the results of evaluations, even if done by different evaluators.

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## RECOMMENDATIONS

Criteria or checklists identifying all of the relevant components and features of a nuclear emergency testing exercise should be developed to help EPO evaluate the exercises it attends, or alternatively, for the municipalities to evaluate their own exercises.

Nuclear emergency testing exercises should be scheduled, conducted and the results documented on a systematic basis, to ensure that all nuclear emergency plans are tested over a specified time cycle.

## MINISTRY RESPONSE

*A formal system for scheduling nuclear emergency exercises has been proposed and should be implemented soon. There are innumerable guidelines and checklists available for conducting and evaluating exercises. Also, EPO has plans to develop a course for training municipal and provincial emergency exercise planners.*

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## MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES

# Institutional Services

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The Ministry of Solicitor General and Correctional Services supervises the detention and release of inmates, parolees, probationers, and young offenders. The objectives of the Ministry Operations Program are to ensure the protection and security of society and to motivate offenders towards positive personal change.

The Ministry provides a wide range of custodial and community-based services to offenders and courts. Major services include the operation of correctional centres, detention centres, jails, and community resource centres. It provides offenders with skills training, counselling, and treatment services.

At the time of our audit, the former Ministry of Correctional Services was staffed by approximately 8,600 people (6,800 in Institutional Services; 1,200 in Community Services; and 600 in head office and central services). It supervises 62,000 offenders, 87 per cent of whom are in the community, with the remaining 13 per cent incarcerated in correctional institutions.

For the 1991/92 fiscal year, the Ministry had total expenditures of \$583 million, of which expenditures for the Institutional Services activity were \$420 million. The focus of this audit was on this activity.

Institutional Services is responsible for the operation of 50 correctional institutions, including jails, detention centres, correction centres, and one camp. These institutions provide custody for adult offenders sentenced to terms of imprisonment of less than two years and for accused persons awaiting trial or other judicial proceedings. The Ministry also provides custody for young offenders between 16 and 17 years of age.

The Ministry head office oversees the planning, monitoring, and reporting functions of these institutions with the help of the corporate office and the five regional offices.

## OBJECTIVES AND SCOPE

Our audit objectives were to assess whether:

- financial, human, and physical resources devoted to inmate custody and rehabilitation were being managed with due regard for economy and efficiency; and
- the Ministry was measuring and reporting the achievement of its corporate objectives to "assure protection and security of society and motivate offenders towards positive personal change."



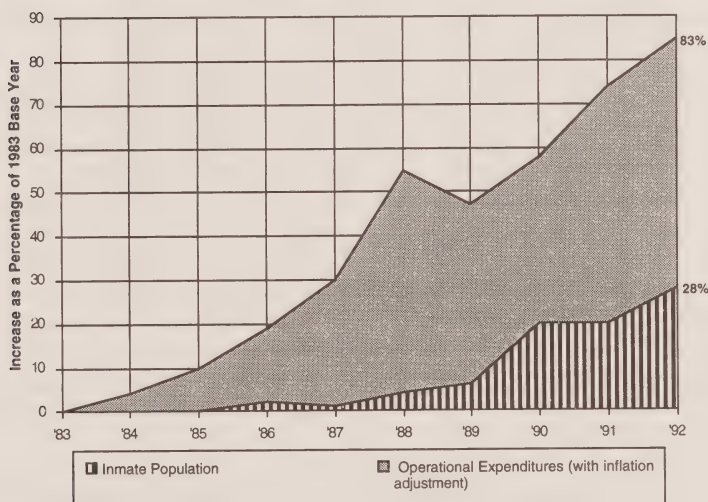
Our audit included visits to the Ministry's head office in North Bay, its corporate office in Toronto, its five regional offices, and eight correctional institutions in the five regions. In addition, we assessed the Ministry's corrective action on recommendations made by the security analyst for 18 provincial institutions. We also sent out questionnaires and analyzed responses from 48 superintendents of the 50 correctional institutions across the province.

## AUDIT OBSERVATIONS

### MANAGING AND CONTROLLING COSTS

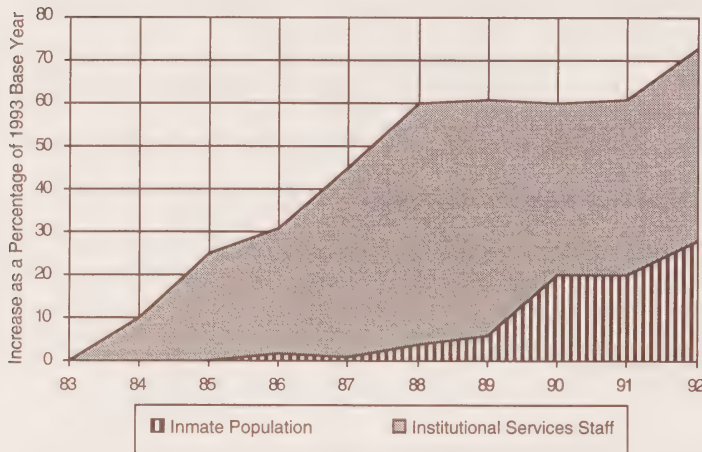
Our review revealed that the average daily inmate count of Ontario institutions has increased by 28 per cent in 10 years, from over 6,200 in 1983 to approximately 8,000 in 1992. However, operational expenditures for Institutional Services have increased over the same period, from \$157 million to \$420 million. When adjusted for inflation, the expenditure increase was 83 per cent.

The increase in operational expenditures for Institutional Services compared to the increase in the number of inmates



As illustrated in the following chart, we noted that the significant increase in the number of correctional staff over the ten-year period closely paralleled and accounted for the increases in institutional expenditures. Over the ten-year period between 1983 to 1992, the total average inmate population increased by 1,770 (28 per cent) while institutional staff increased by 2,900 (73 per cent).

The increase in the number of institutional services staff compared to the increase in number of inmates.



Ministry officials advised us that the following factors contributed to the increased staff levels:

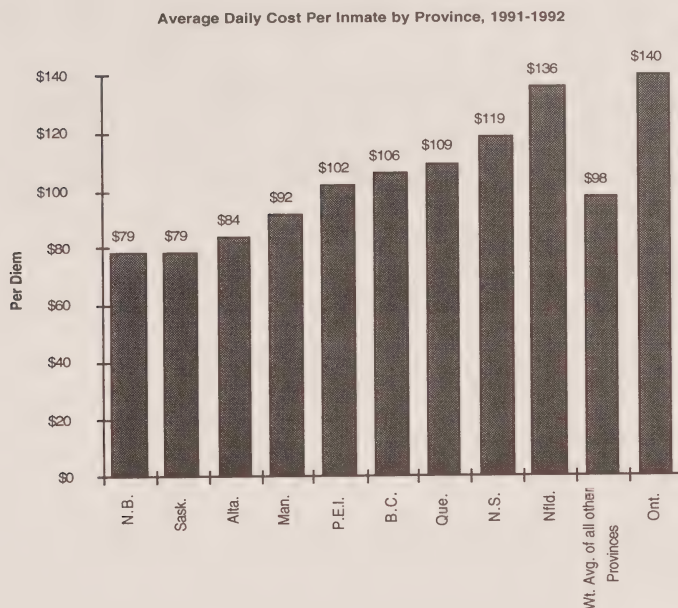
- changes in federal legislation regarding young offenders (i.e., the *Young Offenders Act*) resulted in the Ministry having to provide separate facilities for young offenders between 16 and 17 years old in 1985. Between 1985 and 1988, 915 staff were added to accommodate the separation of young offenders from adult offenders;
- in October of 1990, in a ruling known as the Askov decision, the Supreme Court of Canada declared that individuals had the right to trial within a reasonable amount of time. As a result of this decision, the Ministry anticipated an increase in inmates and probationers as the courts attempted to clear the backlog of cases and move more people through the justice system. In preparation, the Ministry allocated funds for the hiring of 200 additional staff at correctional institutions across the province.
- because of staff concerns about health and safety issues, there has been a gradual increase of posts in a number of institutions. Each post required an addition of five staff at an annual cost of \$271,000;
- as a result of an increase in negotiated leave entitlements, the number of working hours per correctional staff has been reduced by 2.3 per cent, from 1,720 hours to 1,680 hours per annum; and

Another factor for the significant increase in total expenditures was the increase in salary rates above inflation. The salary rate increase for Ontario correctional officers over the ten-year period exceeded the rate of inflation by almost 20 per cent.

While some of these factors were clearly beyond the Ministry's control, they do not fully justify the fact that the increase in staff over the years was significantly higher than the increase in inmates.

For example, the implementation of the *Young Offenders Act* between 1985 and 1988 did not significantly increase the number of inmates, as the Ministry already had responsibility for 16- and 17-year-old offenders before the Act was implemented. Between 1985 and 1988, there was a total increase of 190 inmates including the young offenders while custodial staff increased by approximately 1,370.

A review of cost information provided by Statistics Canada showed that the weighted average daily cost per adult inmate for all other provincial jurisdictions was \$98 in 1992. Ontario, with a per diem cost of \$140, was 43 per cent higher.



*Source: Statistics Canada*

In reporting to Statistics Canada, some provinces excluded items in their per diem costs. For example, according to Statistics Canada, Newfoundland, New Brunswick and Alberta did not include utility and maintenance costs. On the other hand, we noted that Ontario also did not include certain costs such as rent, maintenance and other administrative costs. Nevertheless, the Statistics Canada figures provide a useful, if rough, comparison.

Senior Ministry officials informed us that most of the reasons for the higher daily costs per inmate were factors over which they had limited control—such as staffing costs, inefficien-

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cies of certain jails, and a lower utilization of community programs than that of many other provinces.

## **STAFFING COSTS**

The Ministry informed us that salaries and employee benefits for correctional officers in Ontario were the highest of all Canadian jurisdictions, with Quebec as the second highest. If Ontario correctional staff were to receive the same wages as those in other provinces, the Ontario per diem cost would drop between \$3 and \$19, depending on which provincial rates were used.

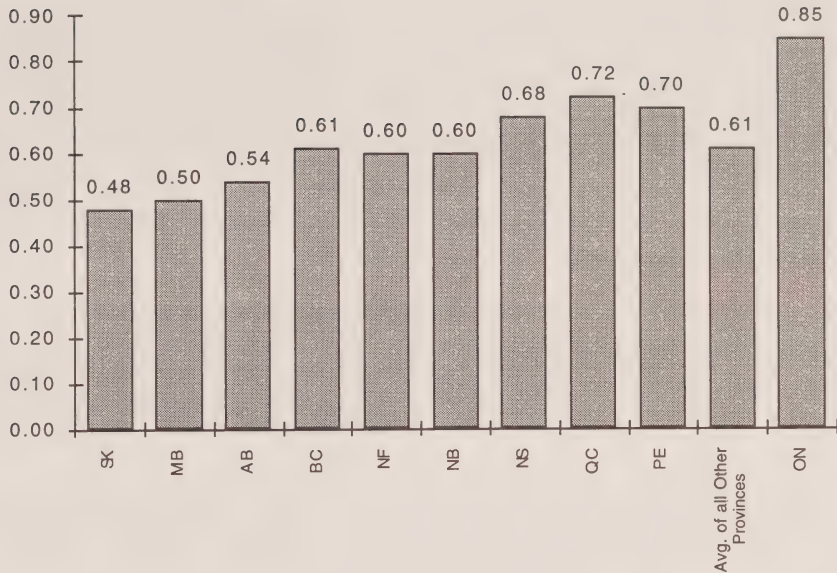
Our discussions with Correctional Services Canada indicated that the salary range for Ontario correctional officers was higher than that for their federal counterparts. While the federal government pays its officers an annual salary from \$28,300 to a maximum of \$38,700, the Ontario government pays its officers from \$36,200 to \$44,500 based on a comparable work week.

Since staffing costs accounted for more than 70 per cent of operating costs in most correctional institutions in Canada, we also analyzed staff-to-inmate ratios among the provinces.

From our analysis, we noted that low per diem cost provinces such as Alberta, Manitoba, and Saskatchewan had about one staff person for every two inmates; Ontario had about one (.85) staff person for each inmate. On average, Ontario had almost 40 per cent more staff per inmate than all other provinces and the highest number of staff per inmate among all Canadian jurisdictions.



Staff-to-inmate ratio, 1991/92



Source: Statistics Canada

Thus, while paying correctional officers higher wages was a factor in Ontario's higher institutional cost, the significantly higher number of staff per inmate was another important factor. This higher staff-to-inmate ratio can be explained in part through the inefficiencies of some of the smaller jails, as discussed later in this report.

When we inquired whether there were any proposals or measures to address the relatively high staff-to-inmate ratio, we were informed that a proposal had been made through the Multi-Year Expenditure Reduction Plan to address staffing requirements largely through the rationalization of institutional operations.

In conjunction with the above, we also understand that the Ministry has commenced a staffing analysis of its facilities based on a process developed by the National Institute of Corrections of the U.S. Department of Justice. At the time of our review, we noted that the Ministry had completed staffing analysis for three of its institutions.

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## RECOMMENDATION

The Ministry should complete its staffing analysis as soon as possible to determine what action is necessary to reduce staffing costs wherever possible.

## MINISTRY RESPONSE

*As noted by the Provincial Auditor, a staffing analysis project was under way in the Ministry at the time of the audit. As of September 1993, over 60 per cent of the institutional reviews were complete. The Ministry will use the results of this key project to identify any inefficiencies, and make the necessary adjustments to staffing to ensure the most effective allocation of resources.*

## SHORT-TERM SICK-DAY USAGE

In other ministries, when a staff member calls in sick, the position need not be filled. However, in the Ministry of Correctional Services, the security mandate requires that correctional officers on short-term sick leave be replaced. In many cases, this requires paying the substitute officer overtime at one and one-half times the hourly rate. In fiscal year 1991/92, short-term sick-day usage in institutions cost the Ministry over \$12 million in salaries and overtime.

Of 48 superintendents who responded to our survey, 32 (67 per cent) indicated that attendance records of correctional staff did not meet their expectations. Most stated that staff attendance was a major concern of their institutions. One institution mentioned that its sick-day "average for 1992 is approximately 30 days per employee."

Our visit to the eight institutions revealed that sick-leave averages in these institutions ranged from 4.5 days to over 20 days per correctional officer.

One key control of sick-day usage at the institutional level is the requirement for an Attendance Review Committee to monitor staff attendance. Our review of personnel files at the institution where the yearly average was in excess of 20 days showed that Attendance Review Committees were not functioning effectively. Meetings were held sporadically.

In another institution we visited, we noted a significant decline in overtime expenditures from the previous year. Management indicated they were successful in reducing overtime by predicting that more staff would be calling in sick during the weekends. Accordingly, they scheduled three excess staff to prepare for that eventuality. The result was a reduction of overtime salary by \$250,000 in the year. However, we noted that average sick-day usage increased from 12 to 14 days over the same period. Our review of the personnel files at the institution showed that warning letters were sent to employees with poor attendance. However, warning letters were sent year after year but there was no follow-through with disciplinary actions.

In the institution with the best attendance record (an average of 4.5 days of sick leave), we noted that attendance monitoring was done on a timely basis, warning letters were acted upon, and chronic abusers were terminated.

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## RECOMMENDATION

The Ministry should strengthen its effort in monitoring sick day usage and develop a consistent disciplinary process to assist superintendents in taking appropriate corrective action.

## MINISTRY RESPONSE

*The Ministry agrees that monitoring the use of sick time requires an effective attendance review program. As such, the Ministry has initiated a review of its existing attendance monitoring process with a view to ensuring a more effective and consistent approach across all institutions.*

*The implementation of the new program is planned for the spring of 1994.*

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## IMPACT OF BUILDINGS ON EFFICIENCY

The Ministry informed us that Ontario has a number of small jails which date back to the 1800s and early 1900s, in contrast to Alberta and British Columbia which have undertaken aggressive building programs to eliminate small inefficient jails, enabling much lower staff-to-inmate ratios to be achieved.

To assess whether the staff-to-inmate ratio of correctional institutions has a direct impact on their per diem cost, we reviewed all the Ontario institutions with a per diem cost lower than that reported for Quebec. We also reviewed the 12 Ontario institutions with a capacity of fewer than 50 inmates. Our review showed the following:

- there were ten institutions in fiscal year 1991/92 that had per diem costs lower than Quebec's average. These 10 institutions, which accounted for over 45 per cent of Ontario adult inmates, had a staff-to-inmate ratio of 0.57:1 on average, which is very comparable to the national weighted average of 0.61:1. In addition, the average daily cost of these same institutions was \$96 per day which is below the weighted average of all other provinces of \$98 per day; and
- on the other hand, the 12 smaller institutions had significantly higher average daily costs, with one institution as high as \$312 per inmate per day. In addition, these facilities had a staff-to-inmate ratio of 1.33:1. This staffing ratio was almost two and a half times the average of the ten lowest institutions.

We also noted that Ontario's smaller institutions were quite old, with an average age of 124 years. Consequently, it is to be expected that the designs and layouts of these facilities do not lend themselves to an efficient allocation of staff.

If the Ministry could bring the average daily cost per inmate of all institutions to the level of the ten institutions noted above, it should be able to realize significant savings. This could require considerable long-term capital investment in improving the efficiencies of provincial institutions through the use of electronic equipment to supplement supervision as well as modernization or replacement of existing facilities.

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## RECOMMENDATION

The Ministry should determine the extent to which capital investments in new or upgraded facilities would reduce operating expenditures.

## MINISTRY RESPONSE

*The Ministry agrees that the impact on operational costs is one of the key factors to be considered in the development of a capital investment strategy. As a result, the Ministry will require that business cases, focusing on operational efficiencies, be developed as part of the capital planning process.*

*In the longer term, as the Ministry proceeds with the rationalization of the institutional system, additional opportunities to reduce operating costs through capital investment will be identified.*

## USE OF COMMUNITY PROGRAMS

The Ministry informed us that in comparison with other provinces Ontario had on average proportionally fewer offenders in community programs such as "Community Resources Centres" and the "Temporary Absence Program." Through these community programs, superintendents of correctional institutions have the discretion of releasing non-violent inmates (on register in their institutions) into the community. According to the Ministry, other provinces were releasing more inmates to community programs. As a result, they had more flexibility in closing units in correctional centres when capacities were not optimally utilized, to achieve better efficiency. In response to our survey, many superintendents also indicated that community programs were more cost effective than incarceration.

We agreed with the Ministry that increased use of community programs would provide more flexibility for closing units in correctional centres. However, the Ministry indicated that greater use of community program requires more co-operation from the judicial system and community acceptance of alternative custody programs for non-violent offenders.

Our review of Statistics Canada information revealed that in 1991/92 fiscal year, Ontario had only placed 11 per cent of offenders in community programs. In contrast, the average for other provinces was 28 per cent, with Alberta and Québec both having 35 per cent of their sentenced offenders in community programs.

The Ministry is currently developing criteria to assist superintendents in assessing risk in placing offenders in community programs.

## RECOMMENDATION

The Ministry should strengthen its efforts to liaise with the judicial system to determine whether community programs could be better utilized.



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## MINISTRY RESPONSE

*The Ministry recognizes the importance of the role played by community programs in correctional services. As a result of the Askov decision in 1990, the government undertook to review the capacity of the criminal justice system to deal with clients in a timely and effective manner. The Ministry is working in co-operation with the Ministries of the Attorney General and Community and Social Services to examine how resources in the justice system can be more effectively utilized, including the role that community resources can and should play.*

*We anticipate that the results of this review will provide the framework for determining future directions with respect to institutional and community programs.*

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## INMATES WITH MENTAL DISORDERS

The Ministry informed us that an aggressive program of de-institutionalization by the Ministry of Community and Social Services and the Ministry of Health has changed the profile of offenders in Ontario. The Ministry estimated that, on any given day, at least 15 per cent of all inmates suffer from some mental disorder requiring extensive intervention. This led the Ministry to establish a number of treatment centres which have higher per diem costs.

This was consistent with our observations in the eight correctional institutions we visited and with survey responses from superintendents who indicated that:

- many of these inmates should not be in the correctional institutions but should be in treatment facilities; and
- correctional staff were not trained to handle inmates with mental disorders who are not placed in treatment centres.

According to Section 24 of the *Ministry of Correctional Services Act*, it is the responsibility of the Ministry to ensure that inmates requiring hospitalization be properly placed for treatment.

## RECOMMENDATION

The Ministry should work with the Ministry of Health and the Ministry of Community and Social Services to clarify responsibilities for treatment of offenders with mental disorders.

## MINISTRY RESPONSE

*The Ministry agrees that the provision of appropriate mental health services to offenders requires the involvement of several ministries to ensure both the humane management and treatment of these individuals, as well as the protection of public safety.*

*As such, the ministry is working with the Ministry of Health as well as the Ministry of Community and Social Services in order to better respond to the needs of mentally disordered offenders by developing a comprehensive strategy to provide mental health services that include court assessments, diversion, community support, and services to the increasing number of inmates with psychiatric problems who are in custody in our institutions.*

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## ACHIEVEMENT OF CORPORATE OBJECTIVES

The corporate objectives of the former Ministry of Correctional Services, stated in the *Public Accounts* of the Province since the 1985/86 fiscal year, have been "to assure protection and security of society and motivate offenders towards positive personal change."

### MOTIVATING OFFENDERS TOWARDS POSITIVE PERSONAL CHANGE

In order for corporate objectives to be effectively met, they should be clearly stated, with established effectiveness indicators which include both qualitative and quantitative indicators. These indicators should be monitored, reported and evaluated, and a framework for corrective action should be established.

One of the stated effectiveness objectives of the Ministry is to motivate offenders towards positive personal change. According to the Ministry, one of the most commonly used measures of positive personal change is the rate of "recidivism" (a return to crime).

In our 1987 audit of the Institutional Services Activity, we expressed concern that this effectiveness indicator was not measured. The Ministry indicated that, with the implementation of its computerized offenders information system, "monitoring of recidivism rates of re-admitted ex-offenders from the Ontario system will be significantly improved."

However, we found that the offenders information system is still not being used for this purpose, nor is the corporate level of the Ministry measuring recidivism or monitoring the effectiveness of its efforts in motivating offenders towards positive personal change.

Without accurate recidivism statistics and other effectiveness measures, the Ministry cannot evaluate which programs or institutions are most effective in changing offenders behaviour.

To determine whether the corporate objective of motivating offenders towards positive personal change was being monitored at the institutional level, we surveyed 50 provincial institutions.

Of the 48 superintendents who responded to our survey question asking whether their institutions were effective in positively changing the behaviour of inmates, 29 (60 per cent) said that their institutions were either not effective (40 per cent), or that they did not know (20 per cent).

Of the 19 superintendents (40 per cent) who said that their institutions were effective, the majority listed inmate participation in correctional programs and informal feedback from inmates and the community as indicators of effectiveness. Many superintendents also stated that due to the short periods of incarceration (less than three months), it was unrealistic to expect correctional programs to have much of an impact on an inmates' behaviour once released. Five mentioned return to crime (recidivism) as an indicator.

However, when we followed up with these five institutions, only one institution could provide us with a report on the recidivism of their offenders.

When responding to another question on how they measure effectiveness, those who had said they did not know whether they were effective indicated that there was no tool to evaluate effectiveness.

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## RECOMMENDATIONS

Particularly in light of the short stay of provincial inmates, the Ministry should re-assess whether recidivism is a viable effectiveness measure. Notwithstanding, the Ministry should ensure it measures and reports on its success in meeting all stated program objectives.

## MINISTRY RESPONSE

*The former Ministry of Correctional Services had begun a review of all of its objective statements as part of an initiative to formulate a new corporate plan. This included an assessment of the stated Ministry objective of motivating positive personal change in offenders and of the use of recidivism as a measure of success.*

*This exercise was delayed by the integration of the Ministries of the Solicitor General and Correctional Services. Now that the first phase of integration has taken place, we are in a position to complete the review of Ministry objective statements.*

*Once objectives are clearly established, the Ministry will develop a framework for program evaluation.*

*In the meantime, the Ministry will complete work in progress on an automated system to gather and analyze statistical information from the Offender Management System. This will provide necessary data for program evaluation purposes.*

## PROTECTION AND SECURITY

To ensure that proper security measures are in place for the protection of society, staff, and inmates, the Ministry has established security policies and procedures.

Our review of compliance with security policies and procedures was conducted with the assistance of a Ministry security analyst. Eighteen institutions were reviewed by the analyst. Five of the eighteen were visited by our staff in conjunction with the analyst.

Of the 18 institutions reviewed, we noted that a majority of the institutions have deficiencies in security policies and procedures. For instance, our review revealed:

- non-compliance with Ministry policies which require that searches be conducted and documented;
- non-compliance with fire and safety policies which are designed to ensure that fire, safety equipment, and emergency alarms are tested and operating properly;
- improperly completed records of inmate movements;
- improperly followed procedures on the safeguarding of and accounting for keys; and
- inadequately controlled accounting for security tools and equipment.

While security policy and procedures are established at the corporate level, implementation of these procedures is the responsibility of the institution. The monitoring and report of compliance with established procedures are performed by the Ministry's Operational Review and Audit Branch. However, we noted that a number of recommendations resulting from operational compliance reviews which were agreed to by individual institutions four to five years earlier were still not implemented.



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Ontario statistics of critical incidents such as escapes, homicides, and suicides are comparable to those of other provincial jurisdictions; nevertheless, stricter compliance may reduce the occurrence of such incidents. For instance, our review of records of escapes revealed the following:

- three inmates escaped while being supervised by non-correctional staff. One was supervised by a cook, the other two by a maintenance worker. Another inmate escaped from a rooftop exercise yard while the correctional officer was conducting a perimeter search and not supervising the inmate; and
- one inmate was able to make two escapes within four months. The first time, because of the lack of a proper count, the inmate was left alone in the exercise yard and scaled the fence. The institution did not notice the inmate missing until the next scheduled count, two and one-half hours later. The inmate was captured the next day by the Ontario Provincial Police. Four months later, the inmate escaped again through an unlocked door and was recaptured the same day.

Our discussion with Ministry officials indicated that senior management had recently taken steps to deal with these security deficiencies at the institutions. A formal memorandum has been issued to all regional directors instructing them to:

- distribute security compliance checklists to all superintendents in their regions to assist them to assess security of their institutions; and
- have superintendents in these regions provide assurance either that their institutions are in compliance with security requirements or that appropriate corrective actions are being taken in areas of deficiency.

In addition, senior management has instructed the Operation Review and Audit Branch to conduct security reviews on every provincial institution at least once a year.

## RECOMMENDATIONS

The Ministry should strengthen its procedures to ensure institutional compliance with security policies and procedures, especially in the areas of safeguarding keys, controlling inmate movements, and conducting search procedures.

Reported instances of non-compliance with security policies and procedures should be followed up at the corporate level regularly to ensure corrective actions are taken on a more timely basis.

## MINISTRY RESPONSE

*The Ministry agrees with the need for continuing vigilance in the area of security. Security has been and will continue to be of ongoing concern to senior management. As noted in the report, the Ministry implemented annual security reviews for all institutions in 1992. These reviews will monitor compliance with security procedures and ensure they are strengthened where necessary. In support of this, a senior committee has been established to ensure timely follow up and response to security recommendations as well as to identify the need for policy and procedural changes.*



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## MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES

# Office of the Fire Marshal

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The Office of the Fire Marshal (OFM) was established by the *Fire Marshals Act* to prevent and investigate fires, and to minimize the loss of life and property from fire through the development, administration and enforcement of fire-related legislation.

Recognizing changes in the operating environment, the Ministry initiated an organizational review of the OFM by a firm of management consultants in 1990. In 1991, the OFM approved a "Change Management Plan" through which the operation would be decentralized. There would be less focus on direct service delivery, through initiatives such as transferring inspection of buildings to local fire services, and more focus on an education and advisory role relating to public safety, and fire protection and prevention initiatives.

The head office located in Toronto delivers policy direction, public relations, research and standards, program development and training.

Five regional offices across the province investigate fires, perform fire prevention inspections, enforce the Fire Code, provide advisory services, fire protection needs surveys, education and training delivery, and educate the public about fire safety.

The OFM spent \$21 million in the 1992/1993 fiscal year, and had a staff complement of 247.

Sections 3 and 12 of the Act empower the Fire Marshal to investigate the causes and circumstances of fires which may be the result of explosions or criminal negligence. The OFM's internal policy is to conduct fire investigations based on four criteria: fatality, financial loss, incendiary fire, and gaseous explosion.

Sections 3, 8 and 18 of the Act provide the Fire Marshal with the power to enter and inspect buildings and places "where persons reside or are employed in numbers," to ensure they comply with the Fire Code Regulation established under the Act. Under the Regulation, the municipal fire chiefs have the authority to enforce the Fire Code. Accordingly, the OFM conducts inspections where considered necessary. It has focused on the inspection of hotels, where it is assigned the inspection responsibility under the *Hotel Fire Safety Act*; nursing homes, where it conducts inspections on behalf of the Ministry of Health; and homes for the aged and theatres which are not inspected by local municipalities.

## OBJECTIVE AND SCOPE

Our audit objective was to assess whether the Office of the Fire Marshal had procedures in place that would ensure it satisfactorily meets its commitment to provide an environment safe from fire and related safety hazards for the citizens of Ontario.

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The scope of our audit covered all major activities of the OFM as outlined in the *Fire Marshals Act*.

We conducted our audit work at head office and at three of the five regional offices. We also held discussions with management and staff and reviewed any relevant work by the Ministry's Evaluation and Audit Branch.

## AUDIT OBSERVATIONS

### PROGRAM EFFECTIVENESS

The OFM's goal is to provide an environment safe from fire and other public safety hazards for the citizens of Ontario. A number of programs throughout the organization contribute to this goal.

However, we found that there were limited effectiveness measures, and no system in place for the monitoring and reporting of overall program effectiveness.

Statistical data could be enhanced to assist the OFM in meeting its mandate. Useful statistics would include data on fire losses, rate of fires in inspected versus uninspected locations, and the number of fire code violations, which would help identify the relevant safety issues and assist in the development of prevention strategies to minimize deaths, injuries and property losses.

Therefore, its effectiveness could be assessed based on a number of measures including those relating to planned targets and actual achievements in reducing:

- the number and rate of civilian deaths and injuries;
- the dollar amount of property damage;
- the number of fire incidents per capita; and
- the percentage of fires that are relatively preventable through inspection or education.

### RECOMMENDATION

The OFM should develop and use clearly defined program effectiveness measures in order to determine and report on goal achievements.

### MINISTRY RESPONSE

*We concur, and as a priority of our Three Year Plan have established a program/activity "sunset review" process which is now under way. Part of this process will be to clearly define program effectiveness measures by the end of the current fiscal year and to monitor future programs against these during 1994-95.*

*Effectiveness measures must also be a component of any new program/activities undertaken in future.*

*This approach to program review may result in some programs being terminated/modified because they no longer support our stated Goals and Objectives. This action is consistent*

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*with the government direction on streamlining, re-engineering and improving efficiency and effectiveness.*

## **OTHER MATTERS**

We also made recommendations in various internal and administrative areas and have received satisfactory management responses and action plans. We will follow up on the Ministry's action plans when sufficient time for implementation has elapsed. Our discussions covered the following topics:

- Fire Investigation Reports
- Fire Safety Inspections
- Informal Reviews
- Training and Education
- Time Reporting and Control
- Overtime
- Quality Control
- Fees for Services
- Fire Loss Reports
- Fleet Management and Employee Expenses
- Inventory in the Northern Fire Protection Program

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## MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES

# Ontario Municipal and Provincial Police Automation Co-operative

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The former Ministry of the Solicitor General began developing the Ontario Municipal and Provincial Police Automation Co-operative (OMPPAC) integrated computer system in 1986, acting on a request by the Ontario Association of Chiefs of Police. The Ministry was assisted by various police personnel.

OMPPAC is a co-operative venture between the Ministry and participating municipal police services. The Ministry operates the central computer system, while the individual OPP and municipal police services have access to the central database through terminals and microcomputers. The OMPPAC Steering Committee reflects this partnership, and is comprised of four municipal Chiefs of Police, the Commissioner of the OPP, two Ministry representatives, and the past Committee chairman.

Computerized information sharing between police services in different jurisdictions was one of the Ministry's key objectives for OMPPAC for the following reasons:

- by providing better and more timely information, pro-active policing (crime prevention as opposed to crime detection) is enhanced;
- by sharing information, the effectiveness of criminal investigations is improved; and
- by making more comprehensive information on potential threats available, the safety of police officers is increased.

Using OMPPAC, police officers are able to record reported incidents such as complaints from the public, possible suspect sightings, vehicle accidents, or results of investigations. As well, they have access to information reported by other police services within the system. In the past, officers generally had ready access only to incidents reported within their own service. OMPPAC has also computerized a number of paper-based administrative functions such as assignment tracking, dispatching, and workload and investigation status reporting.

At the time of our audit, OMPPAC was in use by more than 4,200 officers in 46 small- and mid-size municipal police services of the total of 144 services in Ontario, and in 109 of the 180 OPP detachments. The total cost to the Ministry including development, implementation and ongoing operational costs was approximately \$40 million. In addition to install-



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ing OMPPAC at the remaining OPP detachments, the Ministry has received requests from another 16 municipalities to join the OMPPAC co-operative.

## OBJECTIVES AND SCOPE

The objectives of our audit were to assess whether:

- project management methods and practices employed were adequate to develop and implement the technology on time, within budget and in accordance with government policies;
- data in the system was properly authorized, validated and edited to ensure its integrity; and
- appropriate computer security policies have been defined and were adequate to prevent unauthorized access or changes to the system.

We did not evaluate whether the system met its objectives of increasing the safety, efficiency, and effectiveness of officer performance. Additionally, while a number of Ministry submissions on this project had been made to and approved by Management Board, we were unable to assess whether the system had been adequately justified, because the original business case had been destroyed by the Ministry in accordance with the government's retention of records guidelines.

We obtained information through interviews with users, observation of the system's use, and review of available documentation. We visited 11 municipal police services employing 57 per cent of the officers on municipal OMPPAC installations (Gloucester, Hanover, Midland, North Bay, Orillia, Peterborough, Sarnia, Sault Ste. Marie, St. Thomas, Sudbury Regional, and Thunder Bay).

We visited 11 OPP detachments comprising 23 per cent of the officer strength on OPP OMPPAC (Aurora, Brantford, Burlington, Kingston, Lindsay, Newcastle, Peterborough, Prescott, Rockland, South Frontenac and Thunder Bay).

We visited four large police services which use alternative automated information systems (Metropolitan Toronto, Peel Region, Waterloo Region, and York Region).

## AUDIT OBSERVATIONS

Most police services staff we interviewed believed that OMPPAC has been worth the time and dollar investment and has resulted in improved police services for the public at large. The partnership of the Ministry and municipal police services allowed for the creation of an automated police information system that would likely have been well beyond the individual resource capabilities of the involved municipal forces. In addition, the concept of a co-operative was an innovative approach worthy of consideration by other government programs.

The automation of manual operations and the training of thousands of officers in the use of computer technology was a major undertaking. However, the expected benefits from

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this investment are not yet being fully realized, as a significant portion of the OPP detachments have not fully implemented OMPPAC.

For complete implementation in the OPP, OMPPAC must be installed in 180 OPP detachments and some 177 other locations such as district headquarters, community policing offices, court houses, and special investigative units. At the end of the 1992/93 fiscal year, 68 detachments and 56 other locations have been fully implemented while another 41 detachments have been partially implemented. However, due to funding constraints, this was significantly less than had been planned.

While the development of OMPPAC was a major step towards providing police services throughout Ontario with the capability of sharing computerized information, there is still one major roadblock: most large city and regional police services have purchased a different computerized information system, and Metropolitan Toronto has developed its own system. Neither of these two other systems currently permits the automated sharing of information with OMPPAC.

If Ontario's police services and the public are to reap the full benefits from the investments made to date in automated police information systems, it is essential that Ontario's law enforcement agencies work together towards developing a solution to facilitate information sharing by all three systems.

## RECOMMENDATION

In order to make best use province-wide of OMPPAC's information sharing capabilities, the implementation of OMPPAC, particularly at the OPP detachments and community policing offices, should be accelerated as much as practical given the current fiscal environment. At minimum, OPP detachments inputting only name/index data should be converted to full OMPPAC.

## MINISTRY RESPONSE

*The Ministry has made the implementation of full OMPPAC one of its highest priorities and has accelerated the implementation as much as possible since it received Management Board approval in 1988. Subsequent requests for increased funding to accelerate implementations were not approved by Management Board. Ongoing expenditure pressures, Multi-Year Expenditure Reduction Plans and the effect of the Social Contract have severely tightened the current fiscal environment. The Ministry is in the process of implementing a new technology infrastructure for electronic mail and office automation. This has allowed us to combine the requirements of a number of initiatives and has facilitated the installation of OMPPAC in many more detachments than would have otherwise been possible. In the future, the Ministry will continue with the implementation of full OMPPAC in the OPP as fast as resources will allow.*

## LINKAGE WITH OPP TELECOMMUNICATIONS SYSTEM

We noted that the Ministry has not yet complied with a condition placed by Management Board when they approved the project, that the Ministry would ensure that the OPP automatically transferred incident data from their telecommunications network to the OMP-

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PAC database. While some progress has been made, the necessary systems integration has still not been done. This necessitates re-entry of data into OMPPAC, a duplication of effort.

#### **RECOMMENDATION**

To minimize the need to re-enter incident data, the Ministry should automatically transfer data from the OPP Telecommunications system to OMPPAC.

#### **MINISTRY RESPONSE**

*The Ministry developed an integration release for OMPPAC but was unable to test and implement it because a suitable test bed (of the same radio, communications equipment and PCs) could not be acquired due to financial constraints. The Ministry has now acquired the necessary equipment and is in the process of assembling a suitable test environment. Once the test environment is in place the Ministry will still need to acquire additional systems development staff necessary to build the new release of the interface as all existing resources are committed to current development priorities.*

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## MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES

# Ontario Provincial Police Telecommunications Project

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The Ontario Provincial Police telecommunications system provides radio mobile communication and centralized radio dispatching within the 16 OPP districts. The former Ministry of the Solicitor General recognized that the system which had been installed in 1947 needed to be replaced, and in 1980 Management Board approved the start up of a replacement system with estimated costs of \$24.4 million.

In 1982, the Ministry requested approval for an increase of \$30.1 million in the estimated cost of the system, bringing the total cost to \$54.5 million. Due to this significant cost increase, Management Board established a committee to review the financial and management controls over the project. The committee estimated that the total project cost would be in the \$66 to \$71 million range.

Because of the size of the project, delays in implementation, and significant increases in the estimated costs of this project, we reported on the ongoing project status in our 1983, 1984 and 1987 Annual Reports to the Legislature. Our 1987 report indicated the project was two years behind schedule, and that estimated costs had escalated to \$107 million in 1985 dollars.

In 1988, the Standing Committee on Public Accounts met to review this section of our 1987 *Annual Report* and question Ministry officials. The Committee expressed concern about the continuing delays and cost escalation of the project and requested the Provincial Auditor to monitor the progress of the project and report back to the Committee. In January 1990, the Provincial Auditor reported to the Committee that estimated costs had not changed from the 1987 estimate, and that the implementation was proceeding reasonably well with full implementation targeted for April 1992.

## OBJECTIVES AND SCOPE

We reviewed project activity subsequent to our January 1990 report to the Public Accounts Committee to determine whether the project was implemented by the April 1992 deadline and within the revised budget.



We obtained information through interviews, observation, review of available documentation, and visits to three Communication Centres (Aurora, Peterborough, and Burlington), eight OPP detachments (Brantford, Peterborough, Thunder Bay, Lindsay, Newcastle, Rockland, Prescott, & Kingston), and one microwave tower (King City).

## AUDIT OBSERVATIONS

The final district was fully implemented in April 1992, and the system is now operational across all 16 OPP districts. The project was essentially completed within the revised budget with total capital costs as at October 31, 1992 of \$131 million (\$108 million in 1985 dollars).

The following chart lists the OPP's expectations for the new system and clearly indicates that a number of benefits were achieved.

OPP's Expectations	Benefits Observed
Improved public telephone access to O.P.P.	Toll free, direct line, 24 hours a day, one number per district; facilities for hearing impaired; visible phones outside detachments directly connected to ComCentre for after-hours call.
Improved officer safety	Radio coverage more reliable and covers greater geographic area; requests for assistance (emergency button) on mobile and portable radios; more portables and channels available.
Improved productivity and effectiveness	Duty officer in ComCentre at all times; automatic assignment of channels allows routine operations to continue while emergency in progress; automated radio log recorders reduces dispatchers workload; number of dispatch centers reduced to 16 from 58.
Improved communication services with other agencies	153 sharing agreements in place allowing other government agencies to utilize their remote tower sites.

# Observations on the Annual Statutory Audit

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The Workers' Compensation Board, incorporated in 1914, raises funds from the province's employers in order to provide compensation to workers who have suffered work-related injuries or who have contracted an occupational disease.

At December 31, 1992, the assets of the Board totalled \$6.6 billion. Liabilities totalled \$17.6 billion resulting in a net unfunded liability of \$11 billion. The Board's audited financial statements for the year ended December 31, 1992, are contained in Volume 2 of the 1992/93 *Public Accounts*.

The annual audit of the Board is performed under our direction by a public accounting firm (firm) appointed by the Lieutenant Governor in Council.

The overall objective of this audit was to express an opinion on the Board's financial statements. As part of the 1992 audit, the firm performed a study of the computer environment and the accounting procedures and systems of internal control employed by the Board. The purpose, and therefore the scope of this study, was to obtain a sufficient understanding of internal controls in order to plan the nature, extent, and timing of the audit procedures. The audit would not necessarily disclose, nor was it designed to disclose, all weaknesses in the system of internal accounting controls because it was based on selective tests of accounting records and related data.

Additionally, a financial audit is not designed to provide absolute assurance that there are no misstatements in the financial statements resulting from fraud, irregularities, or errors. The prevention and detection of fraud, irregularities, and errors are primarily management responsibilities.

At the conclusion of the audit, the firm submitted a management letter to the Board's Vice-Chair of Administration with copies to the Audit Committee. The letter summarized significant accounting and internal control matters which came to the firm's attention during the course of the audit. The following matters were included in the letter.

## INTERNAL CONTROL FRAMEWORK

### OBSERVATION

The 1992 audit highlighted the need for senior management to consider strengthening the overall framework for control at WCB as well as improving the awareness and reinforcing the need for good internal controls. Historically, internal controls have evolved on a branch and divisional level in response to new initiatives and systems. Accordingly,

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Board-wide standards of control and a framework for control have tended to develop on an *ad hoc* basis in response to new systems and initiatives. Thus, there was no comprehensive base from which management could assess risks and the internal controls currently in place.

The purpose of internal control is to reduce the level of exposure and risk faced by an organization (including the prevention and detection of fraud and other irregularities) and to ensure the integrity of financial reporting. However, controls and risk reduction techniques have an associated cost, be it monetary, additional resources, or reduced efficiency. The design of an internal control system should consider the fact that there are resource constraints. Accordingly, the benefits of controls should be weighed relative to their costs. Since every risk cannot be eliminated by controls, it is important that senior management determine the level of risk that they are prepared to tolerate and, accordingly, the level of control required throughout WCB.

While the design and implementation of an effective control and security structure are a large undertaking, it is important that a pragmatic approach is taken to ensure control over the key risks and to understand the implications and exposures over residual risks not mitigated by controls.

## RECOMMENDATION

It was recommended that management develop a formal framework for the development of a strong system of internal control at the Board such that a conscious decision can be made as to which control risks the Board is not willing to take. Management should determine the minimum level of documentation that should be available for each critical business area and make it a priority to develop this documentation. Following this, informed decisions can then be made as to the nature of the risks and the control levels required. It will then be required for each division to develop their own accounting procedures and internal controls within the parameters of managements' overall control framework.

It is important for management to develop an approach to reinforce the importance of control awareness for all personnel on an ongoing basis.

## MANAGEMENT RESPONSE

*Management agrees and recognizes the importance of having a control framework that fosters a positive corporate environment for the attainment of the WCB's goals and objectives. This is evidenced by the fact that the Financial Department has undertaken the task of establishing an internal control framework as well as conducting reviews of a number of critical operations. The results from these studies have allowed the WCB to consolidate its position on control issues that need to be addressed from a corporate perspective.*

*Based on the work performed to date, we have identified the components that need to be considered in developing the corporate control framework and the strategies to be employed in developing this framework.*

*The control framework will emphasize both the corporate and divisional risks that need to be addressed through control measures, linkages between control mechanisms, and the cost effectiveness of the controls that are designed.*

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*The key components that will be addressed include:*

- 1) identifying the risks that are inherent in the WCB's operations or systems that need to be addressed through control measures;*
- 2) identifying the accountability structure and the corporate control mechanisms necessary to support the discharge of identified responsibilities;*
- 3) establishing an appropriate delegation of authority in relation to the accountability assigned and the risks identified;*
- 4) establishing the policies necessary to guide and monitor adherence to corporate control objectives and procedures;*
- 5) evaluating the adequacy of control mechanisms built into the operations, systems, applications, and practices to meet identified corporate control objectives;*
- 6) establishing the mechanisms to monitor the effective operation of controls.*

*The strategies to be employed in developing this framework will include a participatory approach whereby WCB employees who are responsible for the implementation and effective operation of the controls will be involved in the risk identification and the planning and design of the controls. The internal control framework is expected to be developed in 1993.*

## **COMPUTER CONTROL ENVIRONMENT**

### **OBSERVATIONS**

Computer control environment issues were highlighted due to the weaknesses observed and due to the fact that these issues are pervasive to every business area of WCB's operations excepting the Investment Division. The day-to-day operations of WCB depend on its extensive and complex computer systems and computer facilities for processing data. Serious deficiencies were found in the control environment surrounding access to data and programs. As well, there were few automated controls in computer applications to ensure completeness and accuracy of claimant payment data.

### **RECOMMENDATION**

In order to develop and implement an effective security and control structure, senior management should develop a security policy which would include a definition of the roles and the accountability of employees, ownership of computer systems and data, and how information should be classified in terms of access. This should be an integral part of the development of a more rigorous system of internal control as recommended in the Internal Control Framework section.

### **MANAGEMENT RESPONSE**

*Management has reviewed the findings in detail with the external auditors and agrees with the recommendations. Corrective action has been taken in many areas where quick fixes could be implemented. For example, the number of users with very high levels of unrestricted access privileges has been sharply reduced as part of our ongoing process to*



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increase controls. There are a number of ongoing initiatives to expand this process over the next two or three months.

A Task Force consisting of senior officials is being established to develop a security policy which will be in place during 1993.

## **BENEFITS LIABILITY**

### **OBSERVATIONS**

Because of its impact on the unfunded liability, the determination of the benefits liability has sensitivities and important financial implications for the Board and its stakeholders. Among the major observations were the following:

- despite valiant efforts, benefit payments data used by the Actuarial Services Branch (ASB) could not be properly reconciled to the accounting records; and
- data from the primary accident cost databases could not be used effectively by ASB.

The benefits liability and unfunded liability can be misstated if inaccurate data and inappropriate actuarial assumptions are used in the liability determination.

### **RECOMMENDATIONS**

The public accounting firm had concerns about the lack of internal control over and the integrity of the data used for calculating the benefits liability. The primary reason for these problems was the fact that there existed a lack of understanding as to how the data is accumulated by Client Services into the reports used by the ASB and why the amounts could not be reconciled or validated. It was recommended that Client Services, Accounting, Actuarial Services, and Information Systems work together to arrive at improved reconciliation procedures and controls in this area.

### **MANAGEMENT RESPONSE**

*In the last two years, considerable work and effort have led to better reconciliation of accounting data with the actuarial data used to calculate the benefits liability. We agree there are significant problems in being able to reconcile the accident cost database with the data used by the Actuarial Services Branch.*

*In the next two years, this area will receive the attention of management. The central issue is the data systems that are available to Actuarial Services Branch and the necessity of having an adequate database. We will review the business case for the development of an integrated database for actuarial work. It should be recognized that it is very expensive to build this enhanced database.*

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## INVESTMENT IN SUBSIDIARIES

### OBSERVATION

The Investment Division is responsible for managing the portfolio of investments and the Investment Administration Branch is responsible for the processing, monitoring and reporting of investment activities. The firm noted that subsidiary companies have been incorporated without specific Board of Director approval.

### RECOMMENDATION

It was recommended that the Board should review the appropriate authority levels for the establishment of new subsidiary companies.

### MANAGEMENT RESPONSE

*By September 1993, a report to the Board of Directors will address the legal issues and approval process regarding the incorporation of subsidiaries.*

## NET UNFUNDED LIABILITY

In addition to the public accounting firm's management letter, we wrote the Vice-Chair of Administration regarding the management of the net unfunded liability, one of the most significant financial issues currently facing the Board. This liability had risen from \$7.35 billion in 1988 to \$11.03 billion in 1992. There had not been a comparable increase in Board investments or revenues, the sources from which this liability must one day be paid. The following table compares the annual growth in the total benefits liability and the net unfunded liability to the annual growth in investments and revenues over this period.

Year	Benefits Liability		Net Unfunded Liability		Investments		Revenues	
	(\$Billion)	Growth	(\$Billion)	Growth	(\$Billion)	Growth	(\$Billion)	Growth
12/31								
1988	11.663	-	7.350	-	3.909	-	2.693	-
1989	13.780	18.1%	8.469	15.2%	4.621	18.2%	3.087	14.6%
1990	15.000	8.9%	9.088	7.3%	5.436	17.6%	3.036	(1.7%)
1991	16.440	9.6%	10.347	13.8%	5.682	4.5%	2.955	(2.7%)
1992	17.200	4.6%	11.028	6.6%	5.745	1.1%	2.981	0.9%

We noted that in 1991, the Board recognized that its funding strategy, developed in 1984, needed revision. In this regard, the Board in February of 1992 released a discussion paper outlining possible approaches to future funding and inviting written submissions on the issue from stakeholders, to be submitted by May 5, 1992. However, more than a year has elapsed since this exercise was conducted. The absence of a defined Board strategy for the unfunded liability and insufficient action to manage and control this liability would have a negative impact on the future of the workers' compensation system.

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## RECOMMENDATION

We recommended that a strategy to deal with the unfunded liability be developed and implemented as quickly and effectively as possible.

## VICE-CHAIR OF ADMINISTRATION'S RESPONSE

*The WCB did adopt a funding strategy in 1984 which, in that year, recognized that the costs of workers' compensation could be broken down as follows:*

Expected new claims cost	\$2.44
Overhead costs	0.20
Unfunded liability surcharge	<u>0.50</u>
Target Rate (per \$100 of payroll)	\$3.14

*The implementation of the funding strategy required that the WCB achieve the 'target' rate in order that the surcharge be applied against the unfunded liability.*

*In actual fact, the reality of how much the rate could be raised in any one year in Ontario caused the WCB to fall short of the "target" rate in each year since 1984. The following table illustrates this point:*

Year	Target Rate	Rate Established by Board of Directors
1984	3.14	2.17
1985	3.14	2.31
1986	3.14	2.65
1987	3.15	2.88
1988	3.30	3.02
1989	3.28	3.12
1990	3.28	3.18
1991	3.28	3.20
1992	3.21	3.16
1993	3.34	2.95

*Therefore, a proper interpretation of the historical evolution of the unfunded liability would record that the liability grew for many years prior to 1984, was recognized and targeted for management in 1984, but has not yet been successfully dealt with. The economic problems of recent years, causing the higher risk industries to drop payroll in a much more significant way than lower risk industries, has caused the average assessment rate drop from projected levels.*

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*This analysis does not deal with your main point, which is that the WCB should have some strategy for dealing with the unfunded liability. Three initiatives are presently under way to achieve that desired goal.*

*First, the Board of Directors recognized and reported in 1992 that the funding strategy was in difficulty. The results of the ensuing consultation have been taken into account in the Board's present Strategy Planning process. The Board of Directors hopes to develop and adopt a strategic plan by late 1993 or early 1994. One of the elements of the plan is the funding of the program.*

*During the funding consultation process in 1992, stakeholders requested that the WCB become more efficient. Also, the Board of Directors has set tighter targets on costs rather than increase assessment rates. Due to lower costs, the unfunded liability increased by \$681 million in 1992 as compared to \$1,259 million in 1991. With no growth in revenues and further expense reductions, our 1993 plan anticipates the unfunded liability increase to be less than \$400 million (less than one-third of 1991's increase). This will be the lowest increase in the unfunded liability since the funding strategy was developed. The second initiative is improved efficiency.*

*Third, the Premier of Ontario has been meeting with the Premier's Labour and Management Advisory Committee to determine whether a high level consensus can be developed on the workers' compensation program, a consensus which recognizes the funding problems and provides direction in dealing with the problem.*



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## CHAPTER FOUR

# Public Accounts of the Province

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## PREPARATION OF THE PUBLIC ACCOUNTS

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act*. The three volumes of the *Public Accounts* are delivered to the Lieutenant-Governor in Council for presentation to the Assembly not later than the tenth day of the first session held in the following calendar year.

Volume 1 of the *Public Accounts* contains the financial statements of the Province's Consolidated Revenue Fund and other statements and schedules. The Provincial Auditor audits and expresses an opinion on the financial statements and reviews the other information in Volume 1.

Volume 2 contains reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

- in which the Province has an investment;
- which have borrowed from the Province; or
- which have borrowed from others with a guarantee by the Province.

Volume 2 also contains the audited financial statements of certain significant operational agencies funded in whole or in part by revenues generated by their operations.

Volume 3 details each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments, under two main categories: Voted Appropriations and Statutory Appropriations. The Provincial Auditor reviews the information in Volume 3 and any relevant comments would be included in this Chapter.

## PROVINCE OF ONTARIO'S CONSOLIDATED REVENUE FUND

The audited financial statements and accompanying notes contained in Volume 1 of the *Public Accounts* summarize the financial activities of the Province's Consolidated Revenue Fund for the fiscal year. They also report on the significant aspects of the Fund's financial position at the close of the fiscal year.

The Summary of Significant Accounting Policies is described in Note 1 to the financial statements, and appears on page 1-7 of Volume 1 of the 1992/93 *Public Accounts*. The

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Summary provides the reader with a clear understanding of the principles and methods used to present the financial information in the statements.

The financial statements are designed to provide an accounting of the financial resources appropriated by the Legislature. Accordingly, the financial transactions of Government ministries are set out as Consolidated Revenue Fund cash inflows and outflows. In the case of cash outflows, this basis is modified to allow for an additional 30 days to pay for goods and services received during the fiscal year just ended. Cash inflows, however, are closed at March 31. Under the Consolidated Revenue Fund concept, the activities of Crown agencies are reported only to the extent to which their operations have been financed from, or have contributed to, the Consolidated Revenue Fund.

## AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Under the *Audit Act*, the Provincial Auditor is required to express an opinion on the Province's financial statements.

For the year ended March 31, 1993, this opinion, which was qualified, is reproduced as follows:

*To the Legislative Assembly of the  
Province of Ontario.*

*I have audited the statement of financial position of the Province of Ontario's Consolidated Revenue Fund as at March 31, 1993 and the statements of revenue, expenditure, accumulated deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.*

*I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.*

*As outlined in note 1 to the financial statements, the modified cash basis of accounting is used in the preparation of these financial statements. This basis of accounting permits the flow of expenditures to be managed in such a way that expenditure is not necessarily reflected in the period in which it has been incurred. Specifically, Government matching contributions of \$584 million to the Teachers' Pension Plan and the Public Service Pension Plan which pertained to and would normally be charged to expenditure in the March 31, 1993 fiscal year, were deferred until April 1993. This was partially offset by employer special payments of \$56 million to the Teachers' Pension Plan which, although due in the March 31, 1994 fiscal year, were charged to expenditure in the March 31, 1993 fiscal year. If these transactions had been recorded in the year in which they were incurred, total expenditure and the deficit for the year ended March 31, 1993 would be increased by \$528 million and the accumulated deficit would be increased by \$528 million.*

*In my opinion, except for the failure to record expenditure in the year in which it has been incurred as described in the preceding paragraph, these financial statements present fairly, in all*

material respects, the financial position of the Province's Consolidated Revenue Fund as at March 31, 1993 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting policies stated in note 1 to the financial statements.

According to note 1, these financial statements have been designed to provide an accounting of the financial resources appropriated by the Ontario Legislature by reporting the financial transactions of Government ministries as Consolidated Revenue Fund cash inflows and outflows. However, the financial statements are not summary financial statements that would more fully report on the nature and extent of the financial affairs and operations of the Government of Ontario.

Therefore, during the 1993/94 fiscal year, I will strongly urge the Government to base these financial statements on the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants, since my audit of and opinion on the March 31, 1994 financial statements will be based on those recommendations. This Board has issued statements that recommend standards for good practice in financial reporting and accounting by Canadian governments. The recommendations that would have the most significant impact to provide a clearer and fuller understanding of the financial position and the results of operations of the Government, are:

- reflecting revenues and expenditures on an accrual basis of accounting, including the value of pension benefits earned by employees, in order to reflect revenues and expenditures in the determination of the surplus or deficit for the period in which they are considered to have been earned and incurred, respectively, whether or not such transactions have been settled by the receipt or payment of cash or its equivalent; and
- the inclusion of all organizations owned or controlled by the Government, in order to provide an accounting for the full nature and extent of the financial affairs and resources for which the Government is responsible.



Toronto, Ontario  
July 23, 1993

Erik Peters, C.A.  
Provincial Auditor

## THE NATURE OF THE QUALIFICATION

### BACKGROUND

For the past four years, we have expressed concerns in our Annual Reports regarding the practice of preflowing expenditures (the payment of grants and other expenditures in the fiscal year preceding that in which they were due), and on the resulting effect on the provincial deficit. We have also recommended, without success, that the Government treat such preflows as advances rather than expenditures, and report them as financial assets at the fiscal year end.

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## CURRENT YEAR

For the year ended March 31, 1993, the converse of preflows took place. As outlined in the 1992/93 fiscal year Budget, a portion of Government matching contributions (\$500 million) to the Ontario Teachers' Pension Plan was deferred from the first business day in January to the first business day in April, 1993.

Similarly, Government matching contributions to the Public Service Pension Plan, previously remitted on a monthly basis, were rescheduled into four quarterly payments. Accordingly, payments of \$67 million that would otherwise have been made in January, February, and March 1993 (regarding payroll deductions for December, January and February) were deferred until April 1, 1993. An additional \$17 million payment that would otherwise have been made in April 1993 (regarding March payroll deductions) and charged to the 1992/93 fiscal year, formed part of the July quarterly payment.

When offset by an amount of \$56 million (representing an unfunded liability payment to the Ontario Teachers' Pension Plan scheduled to be paid in the 1993-94 fiscal year which was preflowed and charged to expenditure in the 1992/93 fiscal year), the net amount of these deferred flows of expenditure was \$528 million.

The deferred flow and preflow of expenditures is permitted under the Government's current modified cash basis of accounting. In essence, as stated in the Provincial Auditor's opinion (see previous section), this basis of accounting permits the flow of expenditures to be managed in such a way that expenditure is not necessarily reflected in the fiscal year to which it pertains or has been incurred. We are of the firm belief that this should not be permitted. Therefore, the opinion on the financial statements was qualified. If these transactions had been recorded in the 1992/93 fiscal year, to which they pertained, the deficit for the year ended March 31, 1993, stated at \$11.9 billion, would have been \$12.4 billion.

## INTEREST ON DEFERRED (RESCHEDULED) PAYMENTS

Arising from the deferral of the \$500 million payment to the Ontario Teachers' Pension Plan from January 4, 1993 to April 1, 1993, negotiations with the Ontario Teachers' Federation resulted in an agreement whereby the Province, in addition to the \$500 million payment, also remitted an amount of \$13.4 million to the Pension Plan, representing interest at the rate of 11.25 per cent per annum applied from January 4, 1993 to March 31, 1993.

In this regard, according to the Ministry of Finance, the net cost of this deferral, based on the difference between the 11.25 per cent rate and the rate paid on long-term borrowing by the Province, was at least \$2 million.

As of mid-September 1993 (the date of preparation of this section), negotiations are still in process between the Ministry of Finance and the Ontario Pension Board regarding the interest rate pertaining to the deferred payments (\$84 million) to the Public Service Pension Plan.



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## RECOMMENDATIONS FOR FUTURE YEARS

The following two paragraphs appeared after the qualified opinion in the Provincial Auditors' Report on the financial statements:

*According to note 1, these financial statements have been designed to provide an accounting of the financial resources appropriated by the Ontario Legislature by reporting the financial transactions of Government ministries as Consolidated Revenue Fund cash inflows and outflows. However, the financial statements are not summary financial statements that would more fully report on the nature and extent of the financial affairs and operations of the Government of Ontario.*

*Therefore, during the 1993/94 fiscal year, I will strongly urge the Government to base these financial statements on the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants, since my audit of and opinion on the March 31, 1994 financial statements will be based on those recommendations. This Board has issued statements that recommend standards for good practice in financial reporting and accounting by Canadian governments. The recommendations that would have the most significant impact to provide a clearer and fuller understanding of the financial position and the results of operations of the Government, are:*

- *reflecting revenues and expenditures on an accrual basis of accounting, including the value of pension benefits earned by employees, in order to reflect revenues and expenditures in the determination of the surplus or deficit for the period in which they are considered to have been earned and incurred, respectively, whether or not such transactions have been settled by the receipt or payment of cash or its equivalent; and*
- *the inclusion of all organizations owned or controlled by the Government, in order to provide an accounting for the full nature and extent of the financial affairs and resources for which the Government is responsible.*

The first paragraph was added to alert any readers or users to the fact that the financial statements should not be defined as relating to the overall financial position and results of operations of the Province. The financial statements, prepared on a modified cash basis of accounting, are those of the Consolidated Revenue Fund only, and hence neither do they fully reflect revenues and expenditures on an accrual basis of accounting, nor are they inclusive of all organizations owned or controlled by the Government.

To make the financial statements more meaningful, the second paragraph sets out what we feel will be necessary, commencing with the year ended March 31, 1994. Our general concern is that legislators and the public are not now being provided the financial information required to help them understand and assess the financial position and results of operations of the Government. Therefore, as stated, our audit of and opinion on the March 31, 1994 financial statements will be based on the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants.

### PUBLIC SECTOR ACCOUNTING AND AUDITING BOARD (PSAAB)

This Board (previously a Committee) was established in 1981. As part of its mandate, PSAAB issues Statements in which recommendations are made for the purpose of improving and harmonizing financial reporting, accounting, and auditing in the public sector in Canada.

The recommendations contained in the Statements represent the consensus of senior government financial officials, legislative auditors, and other experts in public sector account-

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ing across Canada on minimum financial statement accounting and reporting practices for governments. At present, PSAAB has indicated that the federal and most provincial governments either substantially comply or plan to comply with PSAAB recommendations.

As stated in the Provincial Auditor's Report on the financial statements, the PSAAB recommendations that would have the most significant impact in providing a clearer and fuller understanding of the Government's financial position and results of operations are those related to the accrual basis of accounting and to the inclusion of all organizations owned or controlled by the Government.

## ACCRUAL ACCOUNTING

Accrual accounting requires that revenues and expenditures be reflected in the determination of the surplus or deficit for the period in which they are considered to have been earned and incurred, respectively, whether or not such transactions have been settled by the receipt or payment of cash or its equivalent. Currently, the financial statements recognize revenues and expenditures on a cash basis of accounting modified to allow for an additional 30 days to pay for goods and services received during the fiscal year just ended.

As a result, many non-cash items are not included in the financial statements. Examples are accounts and taxes receivable, asset valuation allowances for doubtful receivables and unrecoverable loans, accounts payable, accrued liabilities, vested termination benefits and the unfunded portion of pension benefits earned by employees for which the Government is responsible.

At present, the unfunded liabilities of the Public Service Pension Plan and the Ontario Teachers' Pension Plan, for which the Government is responsible, are described in note 13 to the financial statements, but are not recorded in the financial statements as increases to liabilities and the accumulated deficit.

## GOVERNMENT REPORTING ENTITY

### Organizations Owned or Controlled by the Government

The current reporting entity for the financial statements is defined as the Consolidated Revenue Fund. As a result, the activities of Crown corporations and agencies are included only to the extent that their operations have been financed from (e.g., loans and grants), or have contributed to (e.g., transfers of revenue, dividends), the Consolidated Revenue Fund. Therefore, the financial statements are not summary financial statements as contemplated by PSAAB, which would provide an accounting for the full nature and extent of the financial affairs and resources for which the Government is responsible.

The following example serves to illustrate why we feel it is important to provide summary consolidated financial statements:

- Legislation (the *Capital Investment Plan Act, 1993*) has been introduced which will establish four new Crown corporations, all of which will become operational during the 1993-94 fiscal year. The corporations will be involved in capital investment and financing activities. Thus, substantial amounts of what would normally be direct Government expenditure, revenue, and debt will now be recorded outside the Consolidated Revenue Fund.

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PSAAB recommends that "organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature and which are owned or controlled by the government" be included in the government's financial statements. To comply with this recommendation, the extent to which the financial results of Ontario's Crown corporations and agencies need to be considered for inclusion in the Government's summary financial statements should be studied.

According to the 1993 Budget, the Government, through the Consolidated Revenue Fund, is planning to provide one of these corporations with loans which in turn will be lent to school boards, post-secondary institutions, and hospitals for major capital projects.

Also, per the Budget, "the Province will provide the institutions with annual instalments required to repay the loans." Therefore, in essence, the repayment of these loans is proposed to be financed through future appropriations from the Consolidated Revenue Fund.

In this regard, PSAAB recommends that "when a direct relationship can be established between the repayment of a loan and a government's funding to the borrower, the portion of the loan that is expected to be recovered from future appropriations should be accounted for as an expenditure."

Accordingly, we urge the Government to apply this PSAAB recommendation, and we have already drawn this to the attention of senior Ministry of Finance officials.

### **Infra-Governmental Transactions**

The 1993 Budget also notes that revenue will be raised through the sale of Government real estate to the Ontario Realty Corporation (ORC).

We urge substance over form, as recommended by PSAAB, should be considered when accounting for such revenue. Substance over form requires that transactions be accounted for and presented in accordance with their financial reality. Since the ORC is a wholly-owned Crown agency, the real estate will still be held within the government as a whole. To the extent the real estate is not re-sold to third parties, in substance there will be no sale from the perspective of a government-wide reporting entity.

## **CONCLUSION**

As stated in the Auditor's Report on the financial statements, the Provincial Auditor will strongly urge the Government to prepare summary financial statements based on the recommendations of PSAAB. We realize that, if the Government agrees, this will be an arduous and time-consuming task. However, in our opinion, the resulting benefits to legislators and the public will far outweigh the costs and time involved.

These benefits would principally arise from financial reporting that would provide a clearer and fuller understanding of the financial position and results of operations of the Government. Such improved reporting would provide a much better basis for the Legislature, representing the general public, to hold the Government accountable for the full range of its financial activities.

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# THE CONSOLIDATED REVENUE FUND — AUTHORIZED AND ACTUAL PAYMENTS

## AUTHORIZED PAYMENTS

All public monies received and expenditures made are channelled through the Consolidated Revenue Fund. Expenditures from the Fund are of two major types: those specified by the Estimates (including Supplementary Estimates) and approved by the Legislative Assembly and those specified under the provisions of various statutes. The former are termed payments from Voted Appropriations and the latter are termed payments from Statutory Appropriations. Payments from a particular Voted Appropriation may be increased by a Treasury Board Order, provided the amount of the increase is offset by a corresponding limitation of expenditures from other Voted Appropriations. Special Warrants are another type of payment from the Consolidated Revenue Fund which may be authorized under certain conditions by Orders in Council. The nature of these four expenditure-approval mechanisms is more fully explained below.

### Voted Appropriations

Prior to the passage of the *Supply Act*, the Legislature authorizes payments out of the Consolidated Revenue Fund by means of motions of interim supply. For the 1992/93 fiscal year, the time periods covered by the motions of interim supply, and the dates the motions were agreed to by the Legislature, were as follows:

- July 1, 1992 to October 31, 1992 - passed June 30, 1992
- November 1, 1992 to December 31, 1992 - passed November 2, 1992

Payments for the period April 1, 1992 to June 30, 1992 were authorized by Special Warrants. The nature of this authority is more fully explained under the Special Warrants heading below.

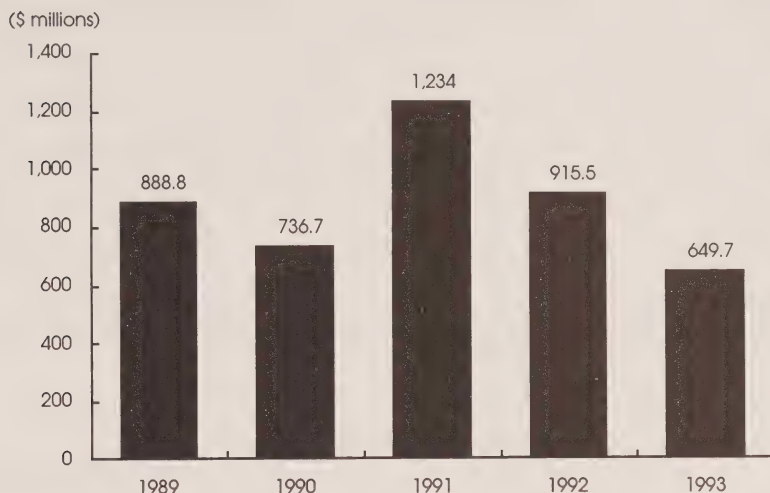
When the Legislature approves the *Supply Act*, the annual estimated expenditures (Estimates and Supplementary Estimates) are formalized as Voted Appropriations. The *Supply Act, 1992*, pertaining to the fiscal year ended March 31, 1993, received Royal Assent on December 10, 1992.

### Treasury Board Orders

Section 8 of the *Treasury Board Act* allows the Board to make an order authorizing payments to supplement the amount of any appropriation which is insufficient to carry out the purpose for which it was made. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.



The following chart is a summary of Treasury Board Orders issued for the past five years:



Treasury Board Orders for the 1992/93 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized \$
September 1992– February 1993	17	267,138,200
March 1993	20	250,807,125
April 1993	<u>14</u>	<u>131,722,500</u>
	<u>51</u>	<u>649,667,825</u>

In accordance with a Standing Order of the Legislative Assembly, the preceding Board Orders have been listed in *The Ontario Gazette*, together with explanatory information.

### Special Warrants

As previously indicated, motions of interim supply adopted by the Legislature are the usual means of authorizing payments from the Consolidated Revenue Fund prior to the passage of the *Supply Act*. However, when the Legislature is not in session, section 7 of the *Treasury Board Act* provides for the issue of a Special Warrant authorizing the expenditure of money for which there is no appropriation by the Legislature. The authorized amount is to be paid out of the Consolidated Revenue Fund as specified in the Special Warrant.

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Special Warrants are authorized by Orders in Council approved by the Lieutenant-Governor on the recommendation of the Government.

Two Special Warrants were issued during the 1992/93 fiscal year. They were approved by an Order in Council dated March 25, 1992 and were for \$34,300,000 and \$12,401,913,300. These Special Warrants authorized payments for the general and necessary expenditures of the Offices of the Chief Election Officer, the Ombudsman, the Provincial Auditor, and the Legislative Assembly and for the general and necessary expenditures of the Government.

The amounts of the Special Warrants were based on anticipated cash requirements, on the premise that expenditure would continue up to the authorized limit, and then under the authority of motions of interim supply.

The total approved by the *Supply Act, 1992* excluded the amount authorized by these two Special Warrants.

In accordance with a Standing Order of the Legislature, summaries of the Special Warrants were tabled on the first Sessional day following the issue of the Warrants.

### Statutory Appropriations

Payments out of the Consolidated Revenue Fund relating to Statutory Appropriations represent those where the specific authority to spend is expressly contained in a statute of the Legislature. No further specific approval is required as the spending authority continues indefinitely until the statute is amended or repealed.

For the information of the Legislature, the Government notes in the annual Estimates the amount expected to be spent in accordance with the authority given in the various statutes. However, if spending on Statutory Appropriations exceeds the expected amount, no Treasury Board Order is required.

## COMPARISON OF AUTHORIZED AND ACTUAL EXPENDITURES

The comparison for the fiscal year ended March 31, 1993 is as follows:

	Authorized (\$ millions)	Actual (\$ millions)
Voted Appropriations		
Estimates	36,972	34,889
Treasury Board Order	<u>650</u>	<u>613</u>
	37,622	35,502
Statutory Appropriations	5,863*	7,390
Special Warrants	<u>12,436</u>	<u>12,436</u>
	<u>55,921</u>	<u>55,328</u>

\* expected expenditures

A detailed listing of Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit 5 of this Report.

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## WRITE-OFF OF UNCOLLECTABLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant-Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the *Public Accounts*.

### 1992/93 WRITE-OFFS

A total of \$129.8 million was written off in the 1992/93 fiscal year (in 1991/92 the amount was \$78.3 million), as indicated on page 3-17 of Volume 1 of the *Public Accounts*. The major portion of these write-offs related to the following:

- \$56.8 million for unpaid taxes relating to the *Retail Sales Act*, the *Corporations Tax Act* and the *Gasoline Tax Act*;
- \$26.3 million for uncollectable loans made by the Development Corporations to their clients or to the clients of ministries while acting as their agent, and by the former Board of Industrial Leadership and Development (BILD);
- \$15 million in uncollectable claims and judgments pertaining to the Motor Vehicle Accident Claims Fund;
- \$14.9 million for the uncollectable balance of the Province's investment in the short-term notes of a private sector company;
- \$5.1 million for uncollectable loans to students under student support programs;
- \$3.4 million pertaining to overpayments under the *Family Benefits Act* and the *General Welfare Act*.

## TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of monies from one item of the estimates of the Office of the Assembly to another item within the same Vote, section 91 of the *Legislative Assembly Act* requires the Provincial Auditor to make special mention of the transfer(s) in the *Annual Report*.

In respect of the 1992/93 expenditure estimates, within Vote 201 of the Office of the Assembly, \$1,650,000 was transferred from Item 2 (Office of the Clerk) to Item 5 (Assembly Services).

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## CHAPTER FIVE

# Office of the Provincial Auditor

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### INDEPENDENCE OF THE PROVINCIAL AUDITOR

The independence of the Provincial Auditor has been ensured by the provisions of the *Audit Act*. The Provincial Auditor is appointed an officer of the Legislative Assembly by the Lieutenant Governor in Council on the address of the Assembly after consultation with the Chair of the Standing Committee on Public Accounts. In this way, the Provincial Auditor is accountable to the public through their elected representatives.

Additionally, the Provincial Auditor and the Office of the Provincial Auditor are independent of the government and its administration. Neither the Provincial Auditor nor the employees of the Office of the Provincial Auditor are employees of the government.

For Office expenditures and staffing, the Provincial Auditor is accountable to the Board of Internal Economy, an all-party legislative committee independent of the government's administrative process. As required by the *Audit Act*, the Office's expenditures have been audited by a firm of chartered accountants appointed by the Board. The audited statement of expenditure for the 1992/93 fiscal year has been submitted to the Board and tabled in the Assembly.

### OFFICE GOALS

The primary goal of the Provincial Auditor is:

- to assist the Legislature in holding the government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor's secondary goal is:

- to assist Deputy Ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries' /agencies' stewardship of public funds.

The Provincial Auditor seeks to achieve these goals by conducting value for money, attest, and compliance audits; by presenting individual audit reports to the respective Deputy Ministers/agency heads; and by presenting an Annual Report to the Legislature.



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# AUDIT RESPONSIBILITIES

## PRIMARY RESPONSIBILITY

The primary responsibility of the Provincial Auditor is to audit the administration of government programs and activities, as carried out by ministries and agencies of the Crown under government policies.

Audit responsibilities, however, do not extend to government policy matters. The Office audits neither government policies nor information contained in Cabinet documents used in policy deliberations or decisions. The government is held accountable for policy matters by the Legislature, which continually monitors and challenges government policies and programs through questions in the Legislature and reviews of legislation and expenditure estimates.

### Ministries

The Provincial Auditor, per Section 9(1) of the *Audit Act*, is required to audit government ministries. While value for money audits are the primary focus, the Office also carries out an annual attest audit to enable the Provincial Auditor to express an opinion on the Province's financial statements. Exhibit 1 lists the value for money audits conducted in 1992/93.

### Agencies of the Crown and Crown Controlled Corporations

The Provincial Auditor, per section 9(2) of the *Audit Act*, is required to audit those agencies of the Crown that are not audited by another auditor. Exhibit 2, part (i), lists the agencies audited for the 1992/93 fiscal year. Public accounting firms are currently contracted by our Office to audit the financial statements of several of these agencies on our behalf.

Exhibit 2, part (ii), and Exhibit 3 list the agencies of the Crown and Crown controlled corporations audited by public accounting firms for the 1992/93 fiscal year. Section 9(2) of the *Audit Act* requires public accounting firms who are appointed auditors of agencies of the Crown to audit under the direction of, and report to, the Provincial Auditor. Under Section 9(3) of the Act, public accounting firms auditing Crown controlled corporations must deliver a copy of their completed audited financial statements to the Provincial Auditor, together with a copy of their findings and recommendations to management (management letter).

## ADDITIONAL AUDIT RESPONSIBILITIES

Under Section 16 of the *Audit Act*, the Provincial Auditor may be directed by the Standing Committee on Public Accounts to examine any matter respecting the Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister. However, these special assignments are not to take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

The Special Assignments section of this chapter indicates the status of recent assignments requested under these Sections of the Act.

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# AUDIT ACTIVITIES

## TYPES OF AUDITS

Value for money, compliance, and attest audits are the three main types of audits carried out by the Office. All such audits are performed in accordance with generally accepted auditing standards. In addition, inspection audits of selected transfer payment recipients are conducted under Section 13 of the *Audit Act*. A brief description of each of these categories follows.

### Value for Money

Section 12 of the *Audit Act* requires the Office to report on any cases observed where money was spent without due regard to economy or efficiency, or where appropriate procedures were not taken to measure and report on the effectiveness of programs. This value for money mandate is exercised with respect to various ministry and Crown agency programs and activities. The Office does not have a mandate under the *Audit Act* to conduct value for money audits of transfer payment recipients, but may assess the steps taken by a ministry/agency to satisfy itself that funds provided to organizations are well managed.

It is not part of the Office's mandate to evaluate the effectiveness of programs or develop standards to measure the efficiency of program delivery, as these functions are the responsibility of the ministry/agency management. The Office is only responsible for assessing the extent to which these functions have been carried out by management.

### Compliance

Compliance audits are carried out in ministries and Crown agencies in order to assess whether transactions and other aspects of operations are in compliance with legislative and administrative requirements. The Office generally conducts such audit work in conjunction with our value for money and attest auditing.

### Attest

Attest (financial) audits are designed to attest to, or express a professional opinion on, a set of financial statements. The opinion states whether the operations and financial position of the entity have been fairly presented in compliance with the entity's stated accounting policies. The Office conducts attest audits on the financial statements of the Province and various Crown agencies on an annual basis.

### Inspection Audits of Transfer Payment Recipients

Transfer payments, comprising over 70 per cent of government expenditures, are transfers of money from the Province to an individual, an organization, or another government.

Inspection audits are defined as examinations of accounting records. Although value for money observations may arise as a by-product of such audits, the audits are not value for money oriented.

The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit. In keeping with the trend towards greater government accountability, the Office in recent years has expanded inspection audit activity specifically to

include the major recipients of transfer payments. The Office has undertaken special reviews of community colleges, universities, hospitals, and school boards.

## **SCHEDULING OF AUDIT ACTIVITIES**

### **Ministry Audits**

All major ministry programs with annual expenditures exceeding \$50 million are considered for audit over a five-year period. The cyclical audits are primarily value for money oriented and report specifically on the administration of programs and activities by management. Ministry expenditure systems that are processed centrally are similarly considered for audit on a cross-ministry basis every five years. Additionally, smaller programs and activities, particularly information systems, may also be audited.

The frequency of the cyclical audits depends on such factors as total ministry expenditures, impact of a program on the public, diversity and complexity of operations, results of previous cyclical audits, and audit activity by the internal audit branch within the relevant ministry. As well, the Office may undertake special assignments at ministries and their agencies as requested by the Legislature, the Standing Committee on Public Accounts, or a minister. The Office may also carry out internally generated special assignments.

### **Agency Audits**

Agencies of the Crown are audited annually as required by legislation. While value for money observations may arise during these audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

### **Internal Audits**

The amount of work done by ministry and agency internal auditors and the breadth of its scope can have a major impact on the timing, frequency, and extent of our audit activity. By having access to internal audit work plans, working papers, and reports, the Office is able to avoid duplication of effort by relying, to the extent possible, on internal audit activities.

## **REPORTING ACTIVITIES**

### **MINISTRY AND AGENCY AUDITS**

The Office prepares a draft report as each audit is completed. The draft is discussed with senior ministry/agency officials and revised, if necessary, to reflect the results of the discussion. We issue a final draft report to the Minister and Deputy Minister or, for agencies, to the Board of Directors and the Minister of the associated ministry. Also, we send a copy of all final draft reports to the Secretary of Management Board of Cabinet.

Neither individual ministry or agency reports, nor reports on special assignments for a Minister, are submitted to the Legislative Assembly or to the Standing Committee on Public Accounts. A similar situation exists for reports submitted by the external auditors of agencies or Crown controlled corporations to management.

## **OFFICE EXPENDITURE**

The following is the 1993 audited Statement of Expenditure for the Office.

**Office of the Provincial Auditor  
Statement of Expenditure  
year ended March 31, 1993**

	1993		1992	
	Actual \$	Estimates \$	Actual \$	Estimates \$
Salaries and wages	4,991,467	5,215,000	5,193,635	5,403,600
Employee benefits	883,270	919,900	998,038	849,200
Transportation and communication	313,626	249,300	195,528	226,100
Services	1,456,064	1,443,400	1,392,156	1,392,400
Supplies and equipment	70,837	48,200	64,327	104,500
Transfer payment - Canadian Comprehensive Auditing Foundation	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
	7,765,264	7,925,800	7,893,684	8,025,800
The Audit Act	<u>119,813</u>	<u>123,000</u>	<u>115,936</u>	<u>123,000</u>
	7,885,077	8,048,800	8,009,620	8,148,800

**Notes:**

1. *Accounting Policy*

The statement of expenditure has been prepared using a modified cash basis of accounting which allows for an additional 30 days to pay for debts incurred during the fiscal year just ended.

2. *Estimates*

The estimates shown above are those voted and approved, including supplementary estimates where applicable.

**Auditors' Report**

**TO THE BOARD OF INTERNAL ECONOMY  
THE PROVINCE OF ONTARIO**

We have audited the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1992. This statement is the responsibility of the organization's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation.

In our opinion, this statement presents fairly, in all material respects, the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1993 in accordance with the accounting policy referred to in note 1 to the statement.



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Toronto, Ontario  
July 14, 1993

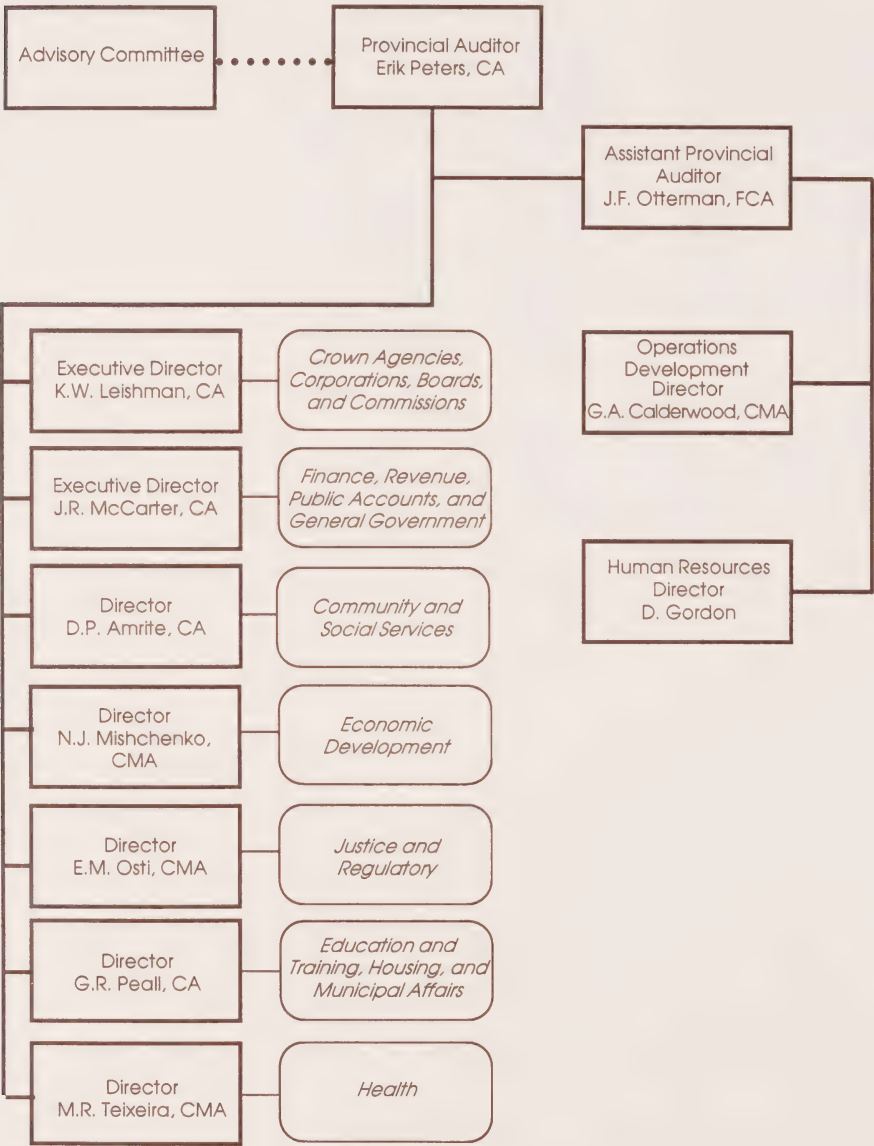
ALLEN & MILES  
CHARTERED ACCOUNTANTS

**5.00**

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# OFFICE ORGANIZATION AND PERSONNEL

The Office was re-organized on April 29, 1993, and management teams are now responsible for the audit of their own particular portfolios. Portfolios are assigned to management as illustrated in the following organization chart.



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## ACKNOWLEDGEMENTS

### EXTERNAL ADVISORY COMMITTEE

The external Advisory Committee periodically reviews the Office's audit approach, analyzes the Office profile, and provides advice relating to sensitive audit issues. The Committee meets once or twice each year on the call of the Provincial Auditor.

The Committee's members combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of government. The current members are Messrs. Rendall Dick, LSM; David Knight, FCA; Robert Lord, FCA; Ron Moore, FCA; and David Wilson, FCA.

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## CHAPTER SIX

# The Standing Committee on Public Accounts

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### APPOINTMENT AND COMPOSITION OF THE COMMITTEE

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each Session of Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chair, whose vote is restricted to the breaking of a tie.

In accordance with the Standing Orders, a Standing Committee on Public Accounts was appointed on April 14, 1992, soon after the commencement of the Second Session of the Thirty-fifth Parliament. A new Committee was appointed on April 20, 1993, soon after the commencement of the Third Session. The current membership of the Committee is as follows:

Joseph Cordiano, Chair, Liberal  
Diane Poole, Vice-Chair, Liberal  
Gilles Bisson, New Democrat  
Robert Callahan, Liberal  
Noel Duignan, New Democrat  
Robert Frankford, New Democrat  
Margaret Marland, Progressive Conservative  
Tim Murphy, Liberal  
Lawrence O'Connor, New Democrat  
Steve Owens, New Democrat  
Anthony Perruzza, New Democrat  
David Tilson, Progressive Conservative

### ROLE OF THE COMMITTEE

The role of the Committee, on behalf of the Assembly and, ultimately, the public, is to hold the Cabinet and the government bureaucracy accountable for their administrations.

In order to fulfil this role, the Committee is empowered to review and report to the Assembly its observations, opinions, and recommendations on selected matters in the Report of the Provincial Auditor and the Public Accounts. These documents are referred to the Committee as soon as they are tabled.



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The Committee examines, assesses, and reports to the Legislature on a number of issues, including the economy and efficiency of operations; the effectiveness of programs in achieving objectives; controls over assets, expenditures and the assessment and collection of revenues; and the reliability and appropriateness of information in the Public Accounts.

## PROVINCIAL AUDITOR'S ROLE IN THE PROCESS

The Provincial Auditor assists the Committee by providing appropriate audit information for use by the Committee in its scrutiny of government programs and financial activities.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

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## COMMITTEE PROCEDURES AND OPERATIONS

### GENERAL

The Committee meets on Thursday mornings when the Legislature is sitting. For the past several years it has also met more frequently during the summer and winter when the Legislature has not been sitting. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports.

At meetings dealing with ministry operations, a Deputy Minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative rather than policy matters, Ministers rarely attend. When the Committee is reviewing Crown agencies, the Chief Executive Officer and, at times, the Chair of the Board attend the meetings. They are usually accompanied by senior agency staff.

### MEETINGS HELD

From September 1992 to September 1993, the Committee met regularly on its designated meeting day while the Legislature was sitting and also during the 1992 and 1993 summer recesses and during the recess between the Second and Third Sessions of the Thirty-fifth Parliament. The Committee's work during this period included:

- considering the matter of the appointment of the Provincial Auditor and recommending to the Legislative Assembly a candidate for appointment as the Provincial Auditor;
- questioning Workers' Compensation Board (WCB) officials regarding the Board's decision to construct an office building for itself, considering the current oversupply of office space in Toronto (related to the WCB motion under Motions Passed, below);
- reviews of the Family Benefits, Elevating Devices, Health Registration, and Non-Profit Housing sections of the Provincial Auditor's 1992 Annual Report;
- reviews of the Provincial Auditor's two special assignment reports on the Toronto General Division of the Toronto Hospital and the Office of the Registrar General;
- discussion of development of a legislated accountability framework and decision to amend the *Audit Act* only after such a framework has been put in place; and
- organizing the Committee's agenda.

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## MOTIONS PASSED AT MEETINGS

The Committee, pursuant to section 17 of the *Audit Act*, passed motions during the September 1992 to September 1993 period requesting the Provincial Auditor to perform special audits and report to the Committee on the following:

- the Workers' Compensation Board's plans to build a \$200-million office tower to serve as its new headquarters;
- the effectiveness of the collection procedures at the Central Collection Services;
- the large quantities of assets purchased by Ontario Hydro but not used and presently warehoused, and the recent renovations and replacement of furniture at the General Division Courthouse at 361 University Avenue, Toronto, including costs thereof and when such renovations were last carried out.

Our special assignment report on the WCB's new headquarters was submitted to the Committee on July 15, 1993, for its consideration. After submission of our special reports, it is normal practice for the Committee to schedule a briefing by the Provincial Auditor in closed session, followed by hearings in open session. In this regard, the Committee scheduled an in-camera briefing by the Provincial Auditor for July 22, 1993; however, at the July 22 meeting, the Committee passed the following motion:

*That the Standing Committee on Public Accounts return to the issue of the WCB's new headquarters after the WCB has reported back to this Committee in 1996 as per the Provincial Auditor's recommendation in his report.*

With the passage of this motion, the Committee effectively deferred discussion of the Provincial Auditor's special report on the WCB's new headquarters until after the WCB reports back to the Committee.

This Office would like to clarify that the Provincial Auditor's recommendation referred to in the above motion was intended to suggest that in early 1996 the WCB report back to the Committee detailing all costs associated with the Board's relocation. This recommendation would simply allow the Committee to carry out a follow-up review on the subject. As pointed out by the Provincial Auditor during debate on this item: *"The major recommendation in my report to you is actually for the Committee to consider the accountability framework within which the WCB operates and to deal with that. I would consider that another important issue that you may want to deal with, and you may not want to defer that to 1996."*

Following the PAC meeting of July 22, considerable discussion took place in the House on the subject of the Provincial Auditor's report on the WCB's new headquarters. We would note that in response to questioning, the Minister of Labour stated *"We appreciate his [the Auditor's] views. We are complying with the recommendations in the Report . . ."*. Additionally, on August 16 the Deputy Minister of Labour advised the Provincial Auditor as follows, *"I want to assure you that both the Ministry of Labour and the WCB are fully committed to following through on the responses we made to the recommendations in your report as quickly as possible."* On September 13 the Deputy Minister provided us with an update on the action being taken with respect to the recommendations contained in the special report.

## COMMITTEE PROCEDURES

In recent years the Committee has adopted the following procedures and approaches to increase its effectiveness:

- in-depth briefings and preparation;

- increased follow-up of Committee recommendations; and
- site visits to discuss concerns and obtain first-hand knowledge of everyday working conditions in the field.

Following the tabling of our 1992 Annual Report, the Committee decided to institute a follow-up procedure with those ministries and Crown agencies not selected for detailed review by the Committee, on their plans and timetable to address the concerns raised in the Provincial Auditor's Annual Report. All the affected ministries and Crown agencies have complied with the Committee's request.

## REPORTS OF THE COMMITTEE

### GENERAL

The Committee issues its reports to the Legislature. Each report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of comments and recommendations.

All reports are available through the Clerk of the Committee, thus affording public access of full details of Committee deliberations.

### FOLLOW-UP OF RECOMMENDATIONS MADE BY THE COMMITTEE

The Clerk of the Committee is responsible for following up the actions taken by ministries/agencies on the Committee's recommendations. Our Office confers with the Clerk to ascertain the status of the recommendations and would bring any significant matters to the attention of the Legislature in our Annual Reports.

## STATUS OF COMMITTEE RECOMMENDATION RESPECTING AMENDMENTS TO THE AUDIT ACT

In 1990, the Committee had recommended that the *Audit Act* be amended to provide the Provincial Auditor with the discretionary authority to perform value for money audits of any government agency and all transfer payment recipients.

Shortly after commencing his appointment on January 4, 1993, the Provincial Auditor devoted his attention to the proposed changes to the *Audit Act*. In this regard, the Provincial Auditor wrote to the then Chair of the Public Accounts Committee as follows:

*While the Provincial Auditor's role is to assess whether value for money has been achieved, it is the responsibility of management to actually ensure that value for money is obtained. Therefore, the current very limited value for money mandate for management and the inadequate accountability framework cannot be overcome by good auditing, which, as you know, can only make recommendations to remedy these weaknesses and deficiencies. This makes it necessary to enhance governance and the achievement of value for money in all government expenditures and activities by establishing appropriate management responsibilities and accountability frameworks for central agencies, ministries, transfer payments and major recipients, Crown corporations, agencies, boards, and commissions.*

*It should therefore be a priority that clear management responsibilities and accountability frameworks be built into the legislation governing central agencies, ministries, transfer pay-*

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*ments, and major recipients, Crown corporations, agencies, boards, and commissions, before the Audit Act is amended.*

On June 17, 1993, the Provincial Auditor appeared before the Public Accounts Committee to discuss the subject of amendments to the *Audit Act* and a legislated accountability framework. After some discussion, the Committee unanimously passed a motion giving approval in principle to the Provincial Auditor to pursue the establishment of a workable legislated accountability framework by central agencies before any amendments are made to the *Audit Act*. In this regard, discussions are currently under way between this Office and central agency representatives on the subject of a legislated accountability framework.

## **OTHER COMMITTEE ACTIVITIES**

### **CANADIAN COUNCIL OF PUBLIC ACCOUNTS COMMITTEES**

The fifteenth annual meeting of the Council was held in Toronto from July 4 to 7, 1993. These annual meetings, normally attended by Public Accounts Committee members from all the provinces, the territories, and the federal government, provide a forum for the exchange of ideas and information.

The annual meeting included a round-table discussion of each delegations' Public Accounts Committee activities during the past year; sessions dealing with raising the profile of public accounts committees; a task force report on Crown corporation accountability; and a joint session with the Conference of Legislative Auditors on the subject of deficits and debt.



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## EXHIBIT ONE

# Value for Money Audits Conducted in 1992/93

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### MINISTRY OF THE ATTORNEY GENERAL

- Criminal Law
- Ontario Legal Aid Plan

### MINISTRY OF COMMUNITY AND SOCIAL SERVICES

- Child and Family Intervention Program
- Young Offender Services

### MINISTRY OF CONSUMER AND COMMERCIAL RELATIONS

- Office of the Registrar General (special audit)
- Registrar General Imaging System

### MINISTRY OF EDUCATION AND TRAINING

- Curriculum Development
- Information Technology Project at Student Support Branch
- Special Education

### MINISTRY OF ENVIRONMENT AND ENERGY

- Transfer Payments Under the Energy Development and Management Program

### MINISTRY OF FINANCE

- Ontario Insurance Commission

### MINISTRY OF HEALTH

- Ontario Health Insurance Plan
- Public Health Activity

### MANAGEMENT BOARD SECRETARIAT

- Queen's Park Telecommunications System

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## **MINISTRY OF NATURAL RESOURCES**

- Grants to Conservation Authorities

## **ONTARIO FILM DEVELOPMENT CORPORATION**

- Ontario Film Investment and Production Financing Programs

## **MINISTRY OF THE SOLICITOR GENERAL AND CORRECTIONAL SERVICES**

- Emergency Planning Ontario
- Institutional Services
- Office of the Fire Marshal
- Ontario Municipal and Provincial Police Automation Co-operative
- Ontario Provincial Police Telecommunications Project

## **TORONTO GENERAL DIVISION OF THE TORONTO HOSPITAL**

- special audit

## **MINISTRY OF TRANSPORTATION**

- Capital Construction Activity

## **WORKERS' COMPENSATION BOARD**

- special audit

## **CROSS-MINISTRY AUDIT OF LEASING PRACTICES:**

- Ministry of the Attorney General
- Ministry of Community and Social Services
- Ministry of Environment and Energy
- Ministry of Health
- Ministry of Natural Resources
- Ministry of Transportation

# Agencies of the Crown

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## (I) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY THE PROVINCIAL AUDITOR

Agricultural Rehabilitation and Development Directorate of Ontario

Alcoholism and Drug Addiction Research Foundation

Algonquin Forestry Authority

Centennial Centre of Science and Technology

Commission on Election Finances

Crop Insurance Commission of Ontario

Eastern Ontario Development Corporation

Egg Fund Board (December 31)

*Election Act, 1984* - Election Fees and Expenses

Environmental Compensation Corporation

Farm Income Stabilization Commission of Ontario

Fund for Milk and Cream Producers -

The Ontario Farm Products Marketing Commission

Grain Financial Protection Board

Innovation Ontario Corporation

Interim Gross Revenue Insurance Plan Program Account

Interim Waste Authority Ltd.

Legal Aid Fund, Law Society of Upper Canada

Liquor Control Board of Ontario

Livestock Financial Protection Board

Northern Ontario Development Corporation

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Northern Ontario Heritage Fund Corporation  
Office of the Assembly  
Office of the Information and Privacy Commissioner  
Office of the Official Guardian  
Office of the Ombudsman  
Ontario Aerospace Corporation  
Ontario Agricultural Museum  
Ontario Cancer Treatment and Research Foundation  
Ontario Development Corporation  
Ontario Educational Communications Authority  
Ontario Film Development Corporation  
Ontario Food Terminal Board  
Ontario Heritage Foundation  
Ontario Housing Corporation (December 31)  
Ontario Industrial Training Institute  
Ontario International Corporation  
Ontario Junior Farmer Establishment Loan Corporation  
Ontario Land Corporation  
Ontario Lottery Corporation  
Ontario Municipal Improvement Corporation  
Ontario Northland Transportation Commission (December 31)  
Ontario Place Corporation  
Ontario Racing Commission  
Ontario Stock Yards Board (June 30)  
Ontario Training Corporation  
Ontario Waste Management Corporation  
Pension Commission of Ontario  
Police Complaints Commissioner  
Potato Financial Protection Board  
Processing-Vegetable Financial Protection Board

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Province of Ontario Council for the Arts  
Provincial Judges Pension Fund, Provincial Judges Pension Board  
Public Trustee of the Province of Ontario  
Rent Review Hearings Board  
St. Clair Parkway Commission (December 31)  
Superannuation Adjustment Fund

## **(II) AGENCIES WHOSE ACCOUNTS ARE AUDITED BY ANOTHER AUDITOR UNDER THE DIRECTION OF THE PROVINCIAL AUDITOR**

Board of Community Mental Health Clinic, Guelph  
Clarke Institute of Psychiatry  
Niagara Parks Commission (October 31)  
Ontario Cancer Institute  
Ontario Mental Health Foundation  
St. Lawrence Parks Commission  
Toronto Area Transit Operating Authority  
Workers' Compensation Board (December 31)

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### NOTES:

1. Dates in parentheses indicate fiscal periods ending on a date other than March 31.
2. Changes during the 1993 fiscal year:  
*Deletions Due to Change in Designation*
  - Soldiers' Aid Commission
3. Inactive agencies as at March 31, 1993:
  - North Pickering Development Corporation
  - Ontario Deposit Insurance Corporation
  - Ontario Pavilion Expo '86
  - Ontario Telephone Development Corporations

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## EXHIBIT THREE

# Crown Controlled Corporations

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CORPORATIONS WHOSE ACCOUNTS ARE AUDITED BY AN AUDITOR OTHER THAN THE PROVINCIAL AUDITOR, WITH FULL ACCESS BY THE PROVINCIAL AUDITOR TO AUDIT REPORTS, WORKING PAPERS, AND OTHER RELATED DOCUMENTS

Board of Funeral Services  
Board of Governors of The Ontario Institute for Studies in Education  
Board of Ophthalmic Dispensers  
Board of Radiological Technicians  
Corporation of the Improvement District of Gauthier  
Corporation of the Improvement District of Matachewan  
Governing Board of Dental Technicians  
Governing Board of Denture Therapists  
McMichael Canadian Art Collection  
Metropolitan Toronto Convention Centre Corporation  
Moosonee Development Area Board  
Ontario Board of Examiners in Psychology  
Ontario Centre for Resource Machinery Technology  
Ontario Cream Producers' Marketing Board  
Ontario Energy Corporation  
Ontario Historical Studies Series  
Ontario Hydro  
Ontario Milk Marketing Board  
Ontario Mortgage Corporation

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Ontario Municipal Employees Retirement Board  
Ontario Share and Deposit Insurance Corporation  
Ontario Teachers' Pension Plan Board  
Ontario Transportation Development Corporation  
Ontario Trillium Foundation  
Ortech Corporation  
Ottawa Congress Centre  
Public Service Pension Board  
Royal Ontario Museum  
Science North  
Stadium Corporation of Ontario Limited  
Teranet Land Information Services Inc.  
Thunder Bay Ski Jumps Limited  
Urban Transportation Development Corporation Limited  
Waterfront Regeneration Trust Agency

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NOTE: Changes during the 1993 fiscal year:  
    *Newly Established Corporation*  
        • Waterfront Regeneration Trust Agency

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## EXHIBIT FOUR

# Status of Previous Annual Report Recommendations

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This exhibit provides the status of all suggested corrective action and recommendations which were either considered unresolved per Exhibit 5 of the 1992 Annual Report or contained in the body of the 1992 Annual Report.

### RESOLVED AS AT DATE OF PREPARATION OF 1993 PROVINCIAL AUDITOR'S REPORT:

<u>Report</u>	<u>Section</u>	<u>Description/Status</u>
<b>Agriculture and Food</b>		
1991	3.02	Livestock and dairy inspection <ul style="list-style-type: none"><li>• Substantially implemented.</li></ul>
<b>Citizenship</b>		
1992	3.02	Citizenship Support Program <ul style="list-style-type: none"><li>• Substantially implemented.</li></ul>
<b>Community and Social Services</b>		
1991	3.03	Surrey Place Centre <ul style="list-style-type: none"><li>• Status to be verified at time of next audit in this area.</li></ul>
<b>Environment</b>		
1991	3.04	Waste management <ul style="list-style-type: none"><li>• Not yet implemented due to delay caused by branch reorganization.</li></ul>



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<b>Financial Institutions</b>		
1991	3.05	Deposit institutions
		<ul style="list-style-type: none"> <li>• Status to be verified at time of next audit in this area.</li> </ul>
<b>Health</b>		
1992	3.08	Queen Street Mental Health Centre
		<ul style="list-style-type: none"> <li>• In process of implementation.</li> </ul>
1992	3.09	Community Mental Health
		<ul style="list-style-type: none"> <li>• In process of implementation.</li> </ul>
<b>Industry, Trade and Technology</b>		
1991	3.05	Industrial assistance
		<ul style="list-style-type: none"> <li>• Status to be verified at time of next audit in this area.</li> </ul>
<b>Labour</b>		
1991	3.09	Construction health and safety
		<ul style="list-style-type: none"> <li>• Partially implemented.</li> </ul>
1991	3.10	Employment standards
		<ul style="list-style-type: none"> <li>• In process of implementation.</li> </ul>
<b>Office Responsible for Women's Issues</b>		
1991	3.11	Ontario Women's Directorate
		<ul style="list-style-type: none"> <li>• Substantially Implemented.</li> </ul>
<b>Tourism and Recreation</b>		
1991	3.12	Recreation, sports and fitness
		<ul style="list-style-type: none"> <li>• Implemented.</li> </ul>

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<b>Transportation</b>		
1991	3.13	Municipal Transit <ul style="list-style-type: none"> <li>• In process of implementation.</li> </ul>
<b>Ontario Housing Corporation</b>		
1991	3.15	Government-owned housing <ul style="list-style-type: none"> <li>• Status to be verified at time of next audit in this area.</li> </ul>
<b>Ontario Waste Management Corporation</b>		
1991	3.16	Waste treatment facility and other matters <ul style="list-style-type: none"> <li>• Substantially implemented.</li> </ul>

## TO BE REVIEWED IN SUBSEQUENT YEARS:

The status of recommendations will normally be determined during the next cyclical audit of the areas involved. However, where possible, we endeavour to ascertain the status earlier.

## CROSS-MINISTRY REVIEWS

1992	2.02	Information Technology Security
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## MINISTRY REVIEWS

<b>Agriculture and Food</b>		
1992	3.01	Market Revenue Program
<b>Community and Social Services</b>		
1992	3.03	Family Benefits Assistance
<b>Consumer and Commercial Relations</b>		
1992	3.04	Elevating Devices
1992	3.05	Real Property Registration

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		<b>Environment</b>
1992	3.06	Surface Water Quality Improvement
		<b>Government Services</b>
1992	3.07	Corporate Payroll System
		<b>Health</b>
1992	3.10	Health Registration System
		<b>Housing</b>
1992	3.11	Microcomputer Network
1992	3.12	Non-Profit Housing
		<b>Natural Resources</b>
1992	3.14	Timber Stumpage, Hunting and Fishing Licences, and Provincial Park Fees
		<b>Revenue</b>
1992	3.16	Employer Health Tax
1992	3.17	Property Assessment Operations
		<b>Transportation</b>
1992	3.18	Highway Maintenance Activities
		<b>CROWN AGENCIES</b>
		<b>Liquor Control Board of Ontario</b>
1992	3.13	Selling Prices, Transportation of Liquor, and Treasury Operations
		<b>Public Trustee of Ontario</b>
1992	3.15	Administration of Trusts and Estates

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## EXHIBIT FIVE

# Treasury Board Orders

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### AMOUNTS AUTHORIZED AND EXPENDED THEREUNDER YEAR ENDED MARCH 31, 1993

Ministry	Date of Order	Authorized	Expended
		\$	\$
Agriculture and Food	Feb. 9, 1993	3,813,400	3,813,400
	Apr. 6, 1993	3,366,800	3,366,800
	Apr. 13, 1993	<u>24,800,000</u>	<u>23,761,574</u>
		<u>31,980,200</u>	<u>30,941,774</u>
Attorney General	Feb. 23, 1993	3,678,400	3,678,400
	Mar. 9, 1993	3,983,200	3,227,104
	Mar. 25, 1993	2,436,900	2,243,255
	Apr. 6, 1993	<u>4,052,600</u>	<u>2,970,284</u>
		<u>14,151,100</u>	<u>12,119,043</u>
Citizenship	Feb. 23, 1993	3,463,700	2,796,989
	Mar. 9, 1993	313,700	313,700
	Apr. 6, 1993	<u>2,193,600</u>	<u>1,139,463</u>
		<u>5,971,000</u>	<u>4,250,152</u>
Colleges and Universities	Dec. 1, 1992	26,600,000	26,600,000
	Jan. 19, 1993	13,300,000	13,300,000
	Feb. 16, 1993	8,100,000	8,100,000
	Mar. 3, 1993	33,376,000	33,376,000
	Mar. 9, 1993	18,300,000	18,300,000
	Mar. 25, 1993	<u>22,927,725</u>	<u>22,466,378</u>
		<u>122,603,725</u>	<u>122,142,378</u>



Ministry	Date of Order	Authorized	Expended
		\$	\$
Community and Social Services	Mar. 25, 1993	20,407,400	20,265,475
	Apr. 6, 1993	<u>11,891,000</u>	<u>10,592,155</u>
		<u>32,298,400</u>	<u>30,857,630</u>
Consumer and Commercial Relations	Feb. 16, 1993	<u>3,448,900</u>	<u>2,138,777</u>
Correctional Services	Mar. 25, 1993	<u>4,630,000</u>	<u>4,424,688</u>
Culture and Communications	Oct. 27, 1992	7,100,000	7,100,000
	Jan. 26, 1993	17,367,400	16,855,767
	Apr. 6, 1993	<u>2,531,100</u>	<u>1,429,001</u>
		<u>26,998,500</u>	<u>25,384,768</u>
Education	Mar. 3, 1993	78,573,200	75,329,833
	Apr. 20, 1993	<u>18,864,500</u>	<u>18,864,419</u>
		<u>97,437,700</u>	<u>94,194,252</u>
Energy	Apr. 6, 1993	<u>3,000,000</u>	<u>2,103,473</u>
Environment	Apr. 13, 1993	<u>27,711,200</u>	<u>27,615,214</u>
Financial Institutions	Mar. 9, 1993	<u>845,500</u>	<u>—</u>
Government Services	Mar. 25, 1993	<u>7,997,100</u>	<u>6,198,903</u>
Office for the Greater Toronto Area	Mar. 3, 1993	<u>6,885,600</u>	<u>6,397,762</u>
Health	Apr. 13, 1993	<u>5,000,000</u>	<u>—</u>
Housing	Apr. 6, 1993	<u>9,296,000</u>	<u>8,973,355</u>
Industry, Trade and Technology	Sept. 8, 1992	<u>2,400,000</u>	<u>1,342,216</u>
Intergovernmental Affairs	Feb. 2, 1993	<u>1,400,000</u>	<u>1,222,575</u>
Labour	Mar. 25, 1993	<u>123,900</u>	<u>13,113</u>

Ministry	Date of Order	Authorized	Expended
		\$	\$
Municipal Affairs	Apr. 20, 1993	<u>3,973,700</u>	<u>3,867,397</u>
Ontario Native Affairs Secretariat	Dec. 8, 1992	<u>1,900,000</u>	<u>—</u>
Natural Resources	Sept. 8, 1992	4,000,000	3,999,540
	Mar. 9, 1993	19,589,900	19,560,379
	Apr. 13, 1993	<u>2,371,500</u>	<u>2,000,581</u>
		<u>25,961,400</u>	<u>25,560,500</u>
Northern Development and Mines	Feb. 2, 1993	36,660,000	35,560,458
	Feb. 23, 1993	5,600,000	4,764,639
	Mar. 25, 1993	<u>600,000</u>	<u>—</u>
		<u>42,860,000</u>	<u>40,325,097</u>
Revenue	Dec. 14, 1992	30,000,000	25,051,726
	Mar. 25, 1993	<u>1,900,800</u>	<u>1,660,635</u>
		<u>31,900,800</u>	<u>26,712,361</u>
Office for Seniors' Issues	Mar. 9, 1993	<u>24,200</u>	<u>—</u>
Solicitor General	Mar. 25, 1993	<u>17,298,500</u>	<u>15,016,786</u>
Tourism and Recreation	Mar. 25, 1993	<u>10,053,500</u>	<u>9,736,070</u>
Transportation	Feb. 2, 1993	98,306,400	98,306,400
	Apr. 6, 1993	<u>12,670,500</u>	<u>12,472,856</u>
		<u>110,976,900</u>	<u>110,779,256</u>
Treasury and Economics	Mar. 3, 1993	<u>540,000</u>	<u>536,492</u>
<b>Total Board Orders</b>		<b><u>649,667,825</u></b>	<b><u>612,764,032</u></b>

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